THE INFLUENCE OF

INDIVIDUAL AUDIT COMMITTEE CHAIRS, CEOS, AND CFOS ON

CORPORATE REPORTING AND OPERATING DECISIONS

A Dissertation

by

BRADLEY PHILLIP LAWSON

Submitted to the Office of Graduate Studies of
Texas A&M University
in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

August 2012

Major Subject: Accounting

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Approved by:

Chair of Committee,	Thomas C. Omer
Committee Members,	Michael S. Wilkins
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	H. Alan Love
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ABSTRACT

The Influence of

Individual Audit Committee Chairs, CEOs, and CFOs

on Corporate Reporting and Operating Decisions. (August 2012)

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Chair of Advisory Committee: Dr. Thomas C. Omer

This paper examines the association between individual managers and corporate reporting and operating decisions. To examine this question, I develop a dataset of 241 individual CEOs and CFOs, as well as audit committee chairs, covering the period of 1988 to 2009. Although audit committee chairs are tasked with monitoring insiders and not actually preparing the financial results, research suggests that each of these management groups could exert their individual "styles" on the reporting and operating decisions. Using this dataset, I find that each of these groups significantly influence accounting- and non-accounting-based corporate decisions. Also, I examine whether the influence of these individuals is impacted by characteristics of the corporation's operating environment. Using individual proxies for managerial discretion and job demands, as well as developing index measures for each of these constructs, I find that the influence of these particular managers is not impacted by the amount of discretion they have or their perceived job demands. Last, I find evidence that observable

demographic measures explain some of the managers' decisions. These results add to the literature concerning the importance of individual managers to corporate decisions because they suggest that managers besides the CFO can significantly influence reporting and operating decisions, and the influence of these managers extends beyond accrual-based techniques to include real activities management decisions.

ACKNOWLEDGEMENTS

I would like to thank my dissertation chair, Thomas Omer, as well as my other committee members, Michael Wilkins, Dechun Wang, and Alan Love, for their direct guidance and support regarding this project. I would also like to thank Chris Wolfe for his helpful comments regarding this project, as well as the other faculty members of Texas A&M University's Accounting Department for their tremendous direction and encouragement during my tenure at Texas A&M. Additionally, I would like to thank the Mays Business School for its financial support, and I would like to recognize the input and recommendations provided by Anne Thompson, Michael Neel, and Michael Mayberry.

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1. INTRODUCTION

The purpose of this study is to examine whether individual manager-specific traits and characteristics (i.e., "styles") influence corporate reporting and operating decisions. Specifically, I examine the associations between individual audit committee chairs, CEOs and CFOs, their observable characteristics, and various proxies for corporations' accounting- and non-accounting-based reporting and operating decisions. I also examine whether limits to managerial discretion and variation in the job demands experienced by these individuals intervene in those associations.

The first question I examine is whether individual managers influence corporate decisions; in particular, reporting and operating decisions. Neoclassical economic and agency theories posit that individual behavior does not impact corporate policies because individuals act based on full knowledge and rational preferences to maximize their own utility, or when they do not, individuals can be properly monitored or incentivized to act in the best interests of shareholders. However, recent studies, such as Bamber et al. (2010), Dyreng et al. (2010), and Ge et al. (2011), suggest otherwise. Their results indicate that individual managers' "styles" are reflected in several corporate policies, decisions and choices, including voluntary disclosure choices, tax avoidance strategies, and accounting practices. Similarly, Bertrand and Schoar (2003) find that individual managers explain some of the variation in corporations' investment, financial, and

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This dissertation follows the style of *The Accounting Review*.

organizational policies. These results are consistent with Upper Echelon theory, which suggests that individual managers' decisions and choices often reflect personal beliefs, values, and cognitive processing attributes. Also, because individual managers are not necessarily interchangeable, corporate policies likely reflect the characteristics of these individuals, which could result in deviations from otherwise value-maximizing outcomes.

The corporate reporting and operating decisions I examine include accounting-based (i.e., accrual-based) and non-accounting-based decisions, as proxied by real activities management measures (Roychowdhury 2006). Because studies suggest that management can influence earnings through both activities (Cohen et al. 2008; McGuire et al. 2012), I extend this area of literature and examine the impact of individual managers on both types of decisions. Ge et al. (2011) examine a similar research question focusing only on the CFO position, and they conclude that individual CFOs are associated with companies' accounting practices. In their analyses, they control for the impact of CEOs on their CFOs' decisions, but they do not directly examine whether individual CEOs have particular reporting styles. Therefore, I also extend this line of literature by including both management positions in my analysis to determine whether individuals in each management group significantly influence the reporting process and operating decisions. Additionally, I add to this area of literature by examining the influence of individual audit committee chairs. Although they are not directly involved with managing the company, I include individual audit committee chairs in my analysis because studies suggest that boards of directors and audit committees can influence financial reporting quality (Klein 2002; Krishnan and Visvanathan 2008; Xie et al. 2003),

investors appear to value higher quality audit committee members (DeFond et al. 2005), and the scope of the audit committee's activities and responsibilities have increased considerably with the passage of the Sarbanes-Oxley Act (Beasley et al. 2009; Engel et al. 2010).

Next, I examine whether the association between these individuals and corporate reporting and operating decisions is influenced by limits to managerial discretion or perceived job demands of the individual manager. Carpenter et al. (2004) indicate that companies' external environment, organizational characteristics, and the amount of discretion and power the manager has within the company limit managers' attempts to achieve desired outcomes. Consistent with that discussion, Bertrand and Schoar (2003) find a significant association between the coefficients for some of their manager-specific fixed-effects and a measure for large institutional investors. Similarly, Ge et al. (2011) examine proxies for managerial discretion and executive job demands, and their results suggest that both significantly impact the influence of individual managers. Therefore, I incorporate in my test design several proxies for curtailments to the discretion afforded to managers and the amount of pressure and demands individual managers experience in their position. Consistent with Hambrick (2007), I measure constraints on managers' activities (i.e., limits to managerial discretion) based on corporate governance-related measures.

My third research question examines whether the association between individual managers' ~~"s~~styles" and corporate reporting and operating decisions is explained by individual demographic characteristics. One of the central premises of Upper Echelon

theory is that the bounded rationality of the individual is driven by their ~~"c~~ognitions, values, and perceptions," (Carpenter et al. 2004) and because individuals act based on bounded rationality, their individual traits can have a significant influence on corporate policies. Additionally, the theory posits that observable characteristics of the individuals (~~"d~~emographics") can serve as noisy proxies for the way in which executives process information. Although the results in Bertrand and Schoar (2003) suggest that CEOs with an MBA are more aggressive while older CEOs appear less aggressive, the results of more recent studies suggest that these measures, as well as other demographics, have little explanatory power concerning corporate policies. To examine this further, I collect biographical information on the manager's age, educational background, CPA/MBA obtainment, military background, and international experience and examine whether these demographic measures explain managers' reporting and operating ~~"s~~tyles".

Following prior research, I identify a sample of 241 individual audit committee chairs, CEOs, and CFOs for the period 1988 to 2009. The results for my first research question are consistent with Upper Echelon theory and suggest that these individuals influence corporate reporting and operating decisions. Specifically, I find that individual CEOs and CFOs both influence accounting-based and non-accounting-based decisions. Similarly, I find individual audit committee chairs are associated with these same decisions. These results shed new light on the influence of individual managers on accrual- and real activity-management decisions because they suggest that individual managers besides the CFO can significantly influence these decisions. (Ge et al. 2011) Additionally, these results add to the literature because they suggest that none of these

management groups overshadow or dominate the influence of another. That is, each management group appears significant in the model, even when controlling for the influence of the other group.

When examining the influence of limits to managerial discretion and job demands on individual managers' styles, I find that these individuals influence corporate reporting and operating decisions irrespective of the measures for discretion and job demands. These results are contrary to expectations based on Upper Echelon theory and suggest that some individual managers' characteristics are reflected in corporate decisions regardless of the company's operating environment. The results remain whether I segregate my sample based on managerial discretion, job demands, or corresponding index values above and below the sample median.

I also provide evidence that certain demographic characteristics, such as the manager's age, MBA and CPA status, explain some of the manager's reporting and operating decisions. More importantly, though, the directional nature of the association between the demographics and the decisions varies depending on the management group. For instance, CEOs with MBAs make more aggressive reporting and operating decisions, while CFOs with MBAs make more conservative decisions. These results are important because they suggest that characteristics of the manager differentially affect their decisions, depending on their position within the company. Additionally, I provide some evidence that demographic characteristics reflect themselves more in particular settings. For example, I find having a Juris Doctorate degree is significant for CEOs making decisions in highly litigious industries.

This study makes several contributions to the literature. First, along with accounting-based measures, I also examine whether individual managers influence non-accounting-based activities, as proxied by real earnings management measures. My results are consistent with Cohen et al. (2008) and Graham et al. (2005) and provide new evidence concerning individual managers' styles and how their styles extend beyond accounting-based reporting to also influence operating decisions. Second, I contribute to the literature by examining multiple sets of individuals who are directly tasked with and held responsible for overseeing and preparing financial statements. By examining audit committee chairs, CEOs and CFOs in the same model, I show that each group has a significant influence on both reporting and operating results, and I provide evidence that these groups tend to influence reporting and operating decisions differentially. These results contribute to the literature because they suggest that individuals within each of these groups can significantly impact reporting and operating decisions, even though (1) audit committee chairs are tasked with monitoring and overseeing inside management and (2) CFOs report to the CEO.

In addition to documenting the importance of different management groups, I contribute to the literature by examining multiple proxies for limits to managerial discretion and job demands. These factors are important because they may intervene in the association between individual manager characteristics and corporate policies and decisions. Also, I develop firm-specific index measures which proxy for each of these constructs. Finally, I contribute by examining multiple observable demographic measures and their ability to directly explain corporate reporting and operating decisions, as well as individual manager's styles.

The remainder of the paper is organized as follows: Section 2 provides the literature review and theory development. Section 3 explains the research method and sample details. Section 4 provides descriptive statistics. Section 5 examines the primary results, while Section 6 provides sensitivity analyses. Section 7 documents the conclusions.

2. LITERATURE REVIEW AND THEORY DEVELOPMENT

2.1 Why Individuals Should or Should Not Influence Corporate Decisions

Economic theory suggests all parties involved in a transaction (i.e., individuals or corporations) behave optimally where the marginal benefits received from an action equal the marginal costs associated with that action. As such, managers are perfect substitutes because the outcomes are dictated by the economic resources and incentives available to the corporation. Similarly, Modigliani and Miller (1961; 1958) describe an ideal world with no market frictions where the total value of the corporation is independent of the corporation's financing choices. Even in the case where frictions do exist, as implied by agency cost theory (Jensen and Meckling 1976), individual managers do not matter to corporate policies because they can all be induced to take similar actions (Bamber et al. 2010).

Contrary to these theories, Bertrand and Schoar (2003) examine individual executives across companies and over time and suggest that individual managers significantly influence corporation's investment, financial and organizational policies. Similarly, Bamber et al. (2010), Dyreng et al. (2010), and Ge et al. (2011) find that individual managers are significant determinants of corporations' voluntary disclosure choices, tax avoidance strategies, and accounting practices, respectively. These studies rely on Upper Echelon (UE) theory from the management science literature (Hambrick and Mason 1984) to explain why individual managers appear to significantly influence corporations' policies and decisions.

Upper Echelon theory implies that managers' decisions and actions are often a reflection of their personal beliefs and characteristics, and because individual managers are not necessarily interchangeable, companies become a reflection of the top management team members, which may result in corporate policies deviating from otherwise value-maximizing outcomes. Additionally, Hambrick (2007) indicates that the original UE theory is based on the idea of bounded rationality. That is, due to cognitive limitations, individuals do not always properly interpret or act upon a complete set of knowledge. Rather, individuals filter information and strategic analyses through their own personal –experiences, values and personalities," which can result in managers' personal tendencies evidencing themselves in corporate policies. Several studies provide indirect evidence of this theory by showing an association between CEO's personal leverage choices and leverage structures of the CEO's firm (Cronqvist et al. 2010); CEO's overconfidence and corporate investment decisions (Malmendier and Tate 2005); and reputation of the CEO and the quality of the corporation's earnings (Francis et al. 2008). Based on Upper Echelon theory and these recent studies, my first research question examines whether individual managers influence corporate reporting and operating decisions.

2.1.1 Which Managers to Examine

Similar to prior studies in this stream of literature (Bamber et al. 2010; Bertrand and Schoar 2003; Dyreng et al. 2010; Ge et al. 2011; Jensen and Zajac 2004), I examine the CEO and CFO positions because both management positions are held accountable for the reported financial results (Representatives 2002). However, unlike prior studies, I

also examine individual audit committee chairs. Although audit committees are tasked with monitoring and not preparing the financial statements, studies suggest that characteristics of the board of directors and audit committees are associated with corporations' earnings management activities (Abbott et al. 2004; Carcello et al. 2009; Klein 2002; Krishnan and Visvanathan 2008; Xie et al. 2003) and investors positively value the appointment of audit committee members with "accounting"-based financial expertise (DeFond et al. 2005). Also, I focus on audit committee chairs because they are most responsible for overseeing the financial reporting process (Schmidt and Wilkins 2011) and are held responsible for breakdowns in the financial reporting process (Farber 2005; Srinivasan 2005); particularly, in the post-SOX period (Beasley et al. 2009; Engel et al. 2010).

Although recent studies examining the implications from Upper Echelon theory find that CEOs and other inside managers significantly influence corporate policies, those results may not apply in this setting because they do not control for the significance of each manager group, even though they all operate contemporaneously in the corporate environment and thus the actions of one group may be a proxy for the influence of another. That is, along with reporting constraints provided by "GAAP requirements, external audit[ors], and SEC regulations" (Ge et al. 2011), CFOs, who are directly tasked with preparing the financial reports, could be overshadowed or dominated by a particularly influential CEO who determines the organizational "tone at the top". (Feng et al. 2011; Ge et al. 2011; Hunton et al. 2010) Regarding the influence of audit committee chairs, Beasley et al. (2009) examine survey evidence and find that while

some audit committee members indicate appropriate monitoring of the reporting process, other members view their governance function as split between an actual monitoring role and a largely ―ceremonial" or ineffective role.

2.1.2 Which Reporting and Operating Decisions

Although managers are subject to numerous constraints, they must make decisions throughout the entire reporting and operating process that could influence the reported results. Studies suggest that management alternates between accounting-based and non-accounting-based (i.e., real activities-based) earnings management activities to influence the reported financial results depending on the time period and the companies' operating environment. (Cohen et al. 2008; Graham et al. 2005; McGuire et al. 2012) To proxy for management's accounting-based decisions, I rely on signed and absolute discretionary accrual values from the modified-Jones model (Dechow et al. 1995), and I examine management's use of accruals in the mapping of cash flows into the financial statements (Dechow and Dichev 2002). Because managers can employ both methods, I also examine individual managers' influence on non-accounting-based activities, as proxied by real earnings management measures related to abnormal cash flow, production costs, and discretionary expenses (Roychowdhury 2006). For a detailed discussion of all the measures employed in this study, see the Appendix.

Following the above discussion, my first hypothesis is as follows:

H1: Individual audit committee chairs, CEOs, and CFOs are significantly associated with corporate reporting and operating decisions.

2.2 Intervening Variables to Individual Managers' Influence

Carpenter et al. (2004) suggest there are intervening variables in the association between individual managers and corporate policies. These variables relate to the companies' external environment, organizational characteristics, and the amount of power, discretion, and incentives the manager has to influence and achieve desired organizational outcomes. Hambrick (2007) categorizes these variables as "managerial discretion" and "executive job demands". Bertrand and Schoar (2003) indicate a positive association between individual managers' styles and a measure for large institutional investors, which supports this notion. Similarly, Carpenter et al. (2003) show that the association between top management team characteristics and strategies of technology IPO firms is dependent on characteristics of the board of directors, and Petersen et al. (2003) show that the dynamics of the top management team mediate the positive association between individual CEO's influence and firm performance.

2.2.1 Proxies for Limits to Managerial Discretion

Hambrick (2007) notes that "discretion exists when there is an absence of constraint and when there is a great deal of means-end ambiguity—that is, when there are multiple plausible alternatives." Hambrick (2007) also notes that "discretion…emanates from environmental conditions, from organizational factors, and from the executive himself or herself," and when managerial discretion is higher, the association between individual manager characteristics and corporate policies should be greater. Following

this, I predict a stronger association between individual managers' styles and corporate reporting and operating decisions when managerial discretion is higher.

To operationalize Hambrick's (2007) definition of managerial constraints, I assume that managers' discretion is inversely related to governance characteristics of the corporation, consistent with Lara et al. (2009). Shleifer and Vishny (1997) define corporate governance as the "way in which suppliers of finance to corporations assure themselves of getting a return on their investment." As such, I limit my governance measures to those groups who are most likely to have a direct or indirect interest in the financial activities of the corporation; namely, auditors, the board of directors, and shareholders. Greater governance or monitoring activities by these parties should allow fewer individual manager characteristics to influence their corporation's policies. Therefore, I propose the following measures to proxy for managerial constraints (See the Appendix for detailed definitions of these measures):

- **Big N vs. Non-Big N Auditors** –Several prior studies show that Big N auditors provide higher audit quality and constrain earnings management activities more than non-Big N auditors (Becker et al. 1998; DeAngelo 1981; Francis and Wang 2008; Teoh and Wong 1993);
- **Auditor Industry Specialization** – Prior studies suggest that clients of industry specialist auditors provide higher quality financial information, which suggests greater monitoring of management activities and greater restrictions on managements' tendency to influence the reporting of earnings (Balsam et al. 2003; Ferguson et al. 2003; Francis et al. 2005b; Reichelt and Wang 2010)
- **Size of the Board of Directors** – Extensive literature shows that characteristics of the Board of Directors impact their ability to monitor management and represent shareholders' interests. Size of the board is one of those characteristics and studies suggest that larger boards are less capable of monitoring management (Jensen 1993; Lipton and Lorsch 1992; Yermack 1996);

- **CEO/Chair Duality** – Studies suggest that CEOs who also hold the position of Board Chair are able to exert greater influence over the corporation's decisions and policies due to less objective monitoring of the CEO's activities by the other board members (Ryan and Wiggins 2004);
- **Extent of Institutional Ownership –** Institutional investors have ~~"t~~he opportunity, resources, and ability to monitor, discipline, and influence managers of firms" (Chung et al. 2002) and studies find an association between institutional monitoring and corporations' investment decisions, financial performance and reporting, and executive compensation policies (Ajinkya et al. 2005; Chung et al. 2002; Cronqvist and Fahlenbrach 2009).

Consistent with the above prediction, my formal hypothesis concerning managerial discretion is as follows:

> *H2a: Individual audit committee chairs, CEOs, and CFOs have a greater effect on corporate reporting and operating decisions when limits to managerial discretion are lower.*

2.2.2 Proxies for Executive Job Demands

Hambrick et al. (2005) note that while top level executives achieve these positions due to exceptional talent, ~~"t~~he reality is that executives vary widely in their ability and in the suitability of their talents for the specific contexts they face." (Hambrick et al. 2005) Additionally, Hambrick et al. (2005) suggest that all individuals are subject to bounded rationality to some degree, and whether that derives from limitations on ~~"c~~ognitive wherewithal, time, or other resources", high job demand situations exacerbate cognitive limitations and can result in incomplete or irrational decision behavior from the manager. Thus, I expect job demands to intervene in the association between individual managers and corporate policies.

Consistent with Hambrick et al. (2005), I suggest the ~~"d~~egree to which a given executive experiences his or her job as difficult or challenging" (Hambrick et al. 2005) is

proxied by the following measures (See the Appendix for detailed definitions of these measures).

- **Complexity of the Corporation** – Consistent with task challenges being an important determinant of job demands, more complex corporations place greater job demands on individual executives (Hambrick et al. 2005);
- **Market Pressures** – The pressure to produce financial results that meet shareholders' expectations is consistent with the performance challenge aspect of job demands;
- **Size of the Corporation** – Size of the corporation represents another potential proxy for job demands. While executives of smaller corporations also face high job demands (e.g., demands arising from limited resources), executives of larger corporations experience greater pressure to succeed and are required to process larger amounts of data than their counterparts at smaller corporations;
- **Litigation Pressure** – Executives of U.S.-based companies face constant threats of litigation. However, certain industries are considered more litigious than others. (Reichelt and Wang 2010) Thus, the threat of ongoing or expected litigation should increase executive job demands;
- **Executive Job Demands Required by the Sarbanes-Oxley Act of 2002** – SOX increased the personal liability of CEOs and CFOs for publishing fraudulent or misleading financial statements due to new certification requirements, and SOX decreased the number of days after year-end that corporations have to file their financial statements with the Securities and Exchange Commission (SEC). Because SOX provisions increase regulatory scrutiny over the financial reporting process, and because prior studies suggest a change in corporations' reporting tendencies before and after SOX's effective date (Cohen et al. 2008), I assume that executive job demands increase during the post-SOX period.

  My formal hypothesis concerning job demands is:

  H2b: Individual audit committee chairs, CEOs, and CFOs have a greater effect on corporate reporting and operating decisions when executive job demands are greater.

2.3 Individual Executive's Observable Characteristics

Upper Echelon theory posits that observable manager characteristics (i.e., demographics) can serve as noisy proxies for the way in which individuals process information. Some of the previous characteristics examined include the manager's age, MBA and CPA attainment, overconfidence, and gender, but prior studies examining these characteristics have found no consistent evidence concerning their ability to explain corporate policies. (Bamber et al. 2010; Bertrand and Schoar 2003; Dyreng et al. 2010; Ge et al. 2011) Therefore, I further explore this issue and examine whether the impact of individual managers on corporate reporting and operating decisions is associated with observable demographic measures. Following prior studies, I collect biographical information from a variety of sources (e.g., Forbes, Bloomberg, SEC filings, and LinkedIn) on each manager in the sample, then using this information, I examine the following demographic measures in my analysis due to data availability and comparability of my results with prior studies:

- **Age** – Indicator variable equal to one if the manager was born before WWII (Bamber et al. 2010);
- **Military Background** – Indicator variable equal to one if the manager has military experience (Bamber et al. 2010);
- **MBA** – Indicator variable equal to one if the manager holds an MBA (Bamber et al. 2010; Bertrand and Schoar 2003);
- **CPA** – Indicator variable equal to one if the manager is a CPA (Ge et al. 2011);

- **Juris Doctorate Degree** – Indicator variable equal to one if the manager holds a JD degree;
- **Doctorate Degree** – Indicator variable equal to one if the manager holds a doctorate-level (non-honorary) degree;
- **Quality of Education** – Indicator variable equal to one if the executive obtained their undergraduate or graduate degree from a top 10 MBA institution (Dyreng et al. 2010)[1];
- **International Assignment Experience** – An indicator variable equal to one if the manager completed an international assignment prior to serving in their current role (Carpenter et al. 2001; Tihanyi et al. 2000).

Because prior studies do not provide consistent evidence concerning the significance or directional nature of the association between these demographic measures and corporate policies, I do not predict an association for these measures. Rather, I rely on the following null hypothesis:

H3: Corporate reporting and operating decisions are not associated with observable demographics of the manager.

[1] Results are similar when I use an indicator variable equal to one if the manager went to an Ivy League university.

3. RESEARCH METHOD AND SAMPLE SELECTION

3.1 Primary Model

For my primary tests, I rely on the following general model:

$$FIN\_RPT_{it} = \alpha_0 + \Sigma_k \alpha_k CONTROLS_{it} + \Sigma_t \alpha_t YEAR_t + \Sigma_i \alpha_i FIRM_i + \Sigma_m \alpha_m AC_m + \Sigma_m \alpha_m CEO_m + \Sigma_m \alpha_m CFO + \varepsilon_{it} \quad (1)$$

where FIN_RPT is one of the discretionary accrual, accrual quality or real earnings management measures discussed previously. The coefficients of interest in this model are the α_m, which represent coefficients on the separate indicator variables for each audit committee chair (AC_m) CEO (CEO_m), and CFO (CFO_m). I also include year (YEAR) and firm fixed-effects (FIRM) in the model. Consistent with recent studies, I include manager-specific indicator variables and firm fixed-effects in the same model to allow the coefficients for the manager indicator variables to represent the incremental effect of each manager on the FIN_RPT measure and to proxy for their unique reporting and operating style.

CONTROLS in the model are common to the earnings management literature and include return on assets (ROA) to control for operating performance of the company and a measure for size (SIZE_AT) based on the natural log of total assets. To control for growth prospects, I include measures for book-to-market ratio (BTM) and sales growth rate (GROWTH), and I control for debt leverage based on the company's total debt to total assets (SC_LEV).

3.2 CEO and CFO Sample

Following Bamber et al. (2010) and Dyreng et al. (2010), I rely on the ExecuComp database for the period of 1992 to 2009 to track individual CEOs and CFOs across firms and over time. My sample selection is reported in Table 1, Panel A. I begin with 23,522 individual manager-firm-year observations (2,621 individual managers; 2,058 individual firms), which represents managers in the Execucomp database that changed firms during the period. Following prior studies, I require three years of data before and after the manager assumed their position at the firm. Also, I focus my analysis on CEOs and CFOs, and I require them to have served in either one of those positions at the parent company of their previous firm. These procedures result in a CEO and CFO sample that contains 12,126 firm-years, 337 unique executives, and 605 unique firms.

TABLE 1
Sample Details

Panel A: Sample Selection

	Exec-Firm-Years	Unique Execs.	Unique Firms
All Execucomp executives that changed companies during the period	23,522	2,621	2,058
Less: Executives without 3 years of data before and after change	(9,405)	(1,321)	(611)
Less: Non-CEO or CFO executives	(4,572)	(458)	(305)
Less: Executives who were not a CEO or CFO in their prior position	(5,979)	(505)	(537)
Plus: Filler years for each executive	8,560	--	--
Sub-Total: Firm-years with CEOs & CFOs available for testing	**12,126**	**337**	**605**

	Audit Chair-CIKS		
All individual "Audit"-related activity per D&O Change database	2,224		
Less: Activity without Compustat data	(814)		
Less: Non-appointment activity & chairs who do not meet 3 yr. requirement	(1,027)		
Less: Board re-organizations	(155)		
Less: Audit chairs without prior company data	(156)		
Sub-Total: Individual Audit Chair-CIK Appointments	72		
		Unique Audit Chairs	**Unique Firms**
Plus: Compustat years for each appointment	2,296		
Sub-Total: Firm-years with Audit Chairs available for testing	**2,368**	**66**	**138**
Total Firm-Years available for testing	**14,494**		
Merging both samples with Compustat			
Less: Duplicate filler years	(4,808)		
Less: Final screen to ensure compliance with 3 yr. requirement at 2 separate firms	(2,595)		
Less: Firm-years in 1987	(158)		
Total Firm-Years for Testing	**6,933**	**241**	**443**

Panel B: Frequency of Position Changes

	Current Title			
Prior Title	AC	CEO	CFO	Total
Other	15	0	0	15
CFO	36	16	104	156
CEO	13	52	3	68
AC	2	0	0	2
Total	66	68	107	241

Panel A details the sample selection process. Panel B presents the managers' prior and current positions at the firms in my sample. Panel C provides information on the demographic data obtained for each of the individual managers. For the final sample, I require at least 3 years of observations for each manager at 2 separate firms. Also, I require at least 3 years of observations outside the manager's tenure (~~f~~iller years").

3.3 Audit Committee Chair Sample

Because the audit committee chair position is typically not identified in the Execucomp database, I rely on the Director & Officer Change (D&O) database provided by Audit Analytics to construct my audit committee chair sample.[2] I first identify all audit-related activity, which results in 2,224 unique audit chair-CIK transactions during the period (See Table 1, Panel A.). Because CIK information is not available for every firm within the Compustat database, I drop observations (814 obs.) that do not contain at least some Compustat data. Also, because the D&O database separately identifies when an individual resigns from the audit chair position, as well as the appointment of the new audit chair, I drop all non-appointment-related activity, along with individual audit chairs that did not stay in their position for at least three years to be consistent with the CEO/CFO sample (1,027 obs.). Next, I drop observations related to board reorganizations (155 obs.) because many of these audit chairs were already serving in the audit chair capacity prior to the reorganization. Also, using data provided in the firm's 8-K filing, I gather information on where the individual worked prior to the audit chair appointment, which drops an additional 156 observations because the prior company

[2] This database provides information on executive changes that firms announce via the filing of Form 8-K with the SEC and covers the period of 2002 to 2009. Unlike the Execucomp or Compustat databases that contain information on each company in the database for each year that they have information available, the D&O database only identifies individual changes in firms' executive teams. That means years in which no executive change occurs are not included in their database. As such, the steps to create a sample of individual audit chairs vary from the steps discussed above.

cannot be identified or missing Compustat data. These steps result in the identification of 72 unique audit chair-CIK appointments during the sample period, which represents an audit committee chair sample containing 2,368 firm-years, with 66 unique audit chairs and 138 unique firms.[3]

Combining the separate samples results in 6,933 firm-years available for testing with 241 unique managers and 443 unique firms. This sample allows me to separate the incremental effect of each management group because some of the managers overlap in their tenure at a particular firm within the sample. For information regarding the current and prior positions of the 241 managers, see the position change information presented in Table 1, Panel B.

[3] Because the career path of those serving as audit chairs varies more so than those serving in either the CEO or CFO position, I do not require my individual audit chairs to serve in either the CEO or CFO position for their first firm. Although several of the audit chairs included in my sample do serve in either the CEO or CFO position prior to becoming an audit chair, I classify those who do not serve in these positions as an ~~O~~ther" job category. Specific examples of positions within this category include: subsidiary CEOs & CFOs, presidents, COOs, Treasurers, and General Counsel. Although including these additional audit chairs in my sample allows me to increase my sample size, it would also bias against me finding that audit chairs significantly influence corporations' financial reporting processes if these individuals do not have the ability to influence overall corporate policies in their prior firm.

4. DESCRIPTIVE STATISTICS

Descriptive statistics for the combined sample are provided in Table 2, Panel A. First, comparing my dependent variables with prior studies, the mean values for signed (DISC_ACR: 0.026) and absolute discretionary accruals (ABS_DISC_ACR: 0.104), as well as the real earnings management measures (R_CFO: 0.048; R_PROD: -0.051; and R_DX: 0.030), appear similar to those reported in Cohen et al. (2008). Similarly, the mean value for accrual quality (R_CHG_WC: 0.001) appears consistent with the mean value for the control firms reported in Jones et al. (2008). [4]

Next, the mean value for BIG_N indicates that approximately 92 percent of the firm-years in my sample are audited by "Big N" audit firms, consistent with prior literature. The remaining proxies for auditor industry specialization indicate mean values of 0.196 (DOMINANCE), 0.249 (MKT_SHARE), 0.219 (MOST_CLTS), 0.183 (CL_SHARE), and 54.517 (NCLIENTS) and are consistent with those reported in Balsam et al. (2003). For INST, BOD_SIZE and CEO_DUAL, the mean values are 0.458, 9.309, and 0.633, respectively.

Last, for the job demands proxies, results indicate mean values of 2.325 and 2.622 for the number of business segments (N_SEG_BUS) and number of geographic segments

[4] Similar to Ge et al. (2011), I do not screen my final sample for missing data. The lack of this step results in differences in the number of observations for each variable reported in Table 2, Panel A. I do not perform this step in order to conserve the number of observations and individual managers available for testing, but I do require the exclusion of observations with missing data when I run my regression model. Although my initial sample creation steps require three years of data to be included in the sample, missing data could drop the number of observations available before and during the manager's tenure to something less than three depending on the dependent variable being examined.

(N_SEG_GEO), respectively. Market to book (MTB) has a mean value of 3.155, and the mean value for litigation exposure (LIT) indicates that approximately 26 percent of my firms operate in highly litigious industries. The mean value of 0.421 for SOX indicates that approximately 42 percent of my sample observations occur in 2002 or later.

To examine the comparability of my sample with other publicly-traded companies, I present descriptive statistics and test of means between my dataset and the complete Execucomp dataset of companies. The results of these tests are presented in Table 2, Panel B. I find ROA, SIZE_AT, and BTM are significantly smaller than the corresponding values for the Execucomp database. Alternatively, GROWTH and SC_LEV are significantly larger. These results suggest that the average firm in my sample is smaller than the average firm in the Execucomp database.

TABLE 2
Descriptive Statistics

Panel A: Test Variables							Panel B: Execucomp Universe	
Variable	**N**	**Mean**	**Std Dev**	**25th Pctl**	**Median**	**75th Pctl**	**N**	**Mean**
Dependent Variables								
DISC_ACR	6,254	0.026	0.168	-0.035	0.011	0.073	28,660	0.026
ABS_DISC_ACR	6,254	0.104	0.153	0.021	0.052	0.121	28,660	0.094**
R_CHG_WC	5,867	0.001	0.057	-0.025	-0.003	0.023	27,766	-0.001**
R_CFO	6,366	0.048	0.151	-0.005	0.047	0.107	30,537	0.061**
R_PROD	6,189	-0.051	0.227	-0.146	-0.041	0.044	30,546	-0.046
R_DX	6,501	0.030	0.322	-0.100	-0.009	0.112	31,685	0.002**
Control Variables								
ROA	6,652	0.021	0.151	0.005	0.043	0.087	32,470	0.036**
SIZE_AT	6,828	7.192	2.101	5.877	7.204	8.656	32,696	7.301**
BTM	6,492	0.201	6.275	0.247	0.422	0.656	32,205	0.524**
GROWTH	6,622	0.176	0.529	-0.002	0.084	0.212	32,401	0.151**
SC_LEV	6,798	0.574	0.264	0.392	0.570	0.721	32,624	0.562**
Governance Variables								
BIG_N	6,933	0.916	0.277	1.000	1.000	1.000	32,727	0.909**
DOMINANCE	6,644	0.196	0.397	0.000	0.000	0.000	31,089	0.180**
MKT_SHARE	6,644	0.249	0.161	0.129	0.219	0.350	31,089	0.243**
MOST_CLTS	6,644	0.219	0.414	0.000	0.000	0.000	31,089	0.220
CL_SHARE	6,644	0.183	0.087	0.124	0.167	0.222	31,089	0.178**
NCLIENTS	6,644	54.517	51.211	14.000	38.000	81.000	31,089	50.413**
INST	6,933	0.458	0.329	0.063	0.526	0.733	32,727	0.507**
BOD_SIZE	4,830	9.309	2.758	7.000	9.000	11.000	21,298	9.466**
CEO_DUAL	4,844	0.633	0.482	0.000	1.000	1.000	19,629	0.631
Job Demand Variables								
N_SEG_BUS	6,218	2.325	1.650	1.000	1.000	3.000	28,701	2.292
N_SEG_GEO	6,028	2.622	1.525	2.000	2.000	3.000	27,875	2.629
MTB	6,493	3.155	4.289	1.416	2.207	3.696	32,204	3.010**
LIT	6,933	0.261	0.439	0.000	0.000	1.000	32,727	0.216**
SOX	6,933	0.421	0.494	0.000	0.000	1.000	32,727	0.443**

** significant difference at 5% level

Panel A provides descriptive statistics for the variables used in this analysis. These values represent observations for the period of 1988 to 2009. Continuous variables are winsorized at the top and bottom 1%. Panel B provides mean values and test of mean differences between my sample and a comparable sample of Execucomp database firms. See the Appendix for detailed information regarding variable definitions.

5. RESULTS

5.1 Analysis of Individual Managers' Influence on Corporate Reporting and Operating Decisions

To examine the association between individual managers and corporate reporting and operating decisions (H1), I follow prior studies and examine three test statistics and measures produced by regressing model (1) on my sample. As presented in Table 3, I separately run model (1) for each of my six FIN_RPT measures. Additionally, columns (1) through (4) in each panel represent the separate inclusion of components from the model. The results in column (1) represent the model including the CONTROL variables, FIRM and YEAR fixed-effects, and all manager-specific fixed-effects. Columns (2) through (4) include the same CONTROL, FIRM, and YEAR variables but individually introduce audit chair-effects, CEO-effects, and CFO-effects to the model. For brevity, I do not discuss the specific results for each model as the results are similar across all models and panels.

TABLE 3
Individual Manager's Influence on Reporting and Operating Decisions

	All Manager Effects	AC Effects Only	CEO Effects Only	CFO Effects Only
	(1)	(2)	(3)	(4)
Panel A: Discretionary Accruals (DISC_ACR)				
N per model	6,032	6,032	6,032	6,032
Test Controls = 0				
F-stat	63.33***	68.53***	72.22***	66.39***
Test Manager Fixed Effects = 0				
F-stat	2.59***	3.20***	2.12***	2.63***
Test of Manager Coefficients				
N	237	66	66	105
Expected Significance [a]	12	3	3	5
Actual Significance [b]	41	15	12	19
Mean Effect	-0.006	-0.005	0.006	-0.014
25th Percentile	-0.040	-0.067	-0.035	-0.044
75th Percentile	0.031	0.047	0.036	0.028
Panel B: Absolute Discretionary Accruals (ABS_DISC_ACR)				
N per model	6,032	6,032	6,032	6,032
Test Controls = 0				
F-stat	11.74***	14.23***	14.26***	14.30***
Test Manager Fixed Effects = 0				
F-stat	2.25***	3.14***	1.77***	2.21***
Test of Manager Coefficients				
N	237	66	66	105
Expected Significance [a]	12	3	3	5
Actual Significance [b]	32	7	11	17
Mean Effect	-0.007	0.015	-0.007	-0.020
25th Percentile	-0.042	-0.037	-0.039	-0.045
75th Percentile	0.023	0.053	0.024	0.007
Panel C: Quality of Accruals (R_CHG_WC)				
N per model	5,666	5,666	5,666	5,666
Test Controls = 0				
F-stat	13.69***	12.83***	13.41***	14.27***
Test Manager Fixed Effects = 0				
F-stat	4.52***	10.22***	2.13***	2.96***
Test of Manager Coefficients				
N	239	66	66	106
Expected Significance [a]	12	3	3	5
Actual Significance [b]	51	17	14	23
Mean Effect	-0.003	-0.008	0.002	-0.002
25th Percentile	-0.019	-0.023	-0.011	-0.027
75th Percentile	0.016	0.015	0.014	0.015

TABLE 3 (continued)

	(1)	(2)	(3)	(4)
Panel D: Abnormal Cash Flow (R_CFO)				
N per model	6,141	6,141	6,141	6,141
Test Controls = 0				
F-stat	45.82***	50.26***	49.26***	46.72***
Test Manager Fixed Effects = 0				
F-stat	4.56***	10.51***	2.21***	2.31***
Test of Manager Coefficients				
N	238	66	66	106
Expected Significance [a]	12	3	3	5
Actual Significance [b]	41	13	12	17
Mean Effect	0.002	0.013	-0.009	0.002
25th Percentile	-0.035	-0.032	-0.036	-0.037
75th Percentile	0.036	0.045	0.020	0.035
Panel E: Abnormal Production (R_PROD)				
N per model	6,043	6,043	6,043	6,043
Test Controls = 0				
F-stat	18.16***	19.03***	18.68***	21.88***
Test Manager Fixed Effects = 0				
F-stat	4.18***	5.22***	4.85***	3.46***
Test of Manager Coefficients				
N	240	66	67	107
Expected Significance [a]	12	3	3	5
Actual Significance [b]	66	23	24	26
Mean Effect	-0.002	-0.007	0.007	-0.004
25th Percentile	-0.044	-0.049	-0.035	-0.044
75th Percentile	0.038	0.047	0.035	0.033
Panel F: Abnormal Discretionary Expenses (R_DX)				
N per model	6,269	6,269	6,269	6,269
Test Controls = 0				
F-stat	24.74***	26.24***	28.13***	26.81***
Test Manager Fixed Effects = 0				
F-stat	4.68***	6.50***	5.42***	3.37***
Test of Manager Coefficients				
N	240	66	67	107
Expected Significance [a]	12	3	3	5
Actual Significance [b]	69	20	28	28
Mean Effect	-0.014	-0.023	-0.012	-0.008
25th Percentile	-0.058	-0.068	-0.081	-0.056
75th Percentile	0.046	0.053	0.053	0.046

* significant at 10%; ** significant at 5%; *** significant at 1%

[a] These values represent the number of manager-specific coefficients I would expect to be significant at the 5% level for a random sample of observations.

[b] These values represent the actual number of manager-specific coefficients that are significant at the 5% level.

This table reports the results from regressing the applicable FIN_RPT variable on the CONTROL variables, FIRM and YEAR fixed-effects, and the AC, CEO, and CFO fixed-effects. Column (1) represent the model including all of the manager-effects in the same model. Columns (2) through (4) include the same control variables, firm and year fixed-effects, but separately include AC-effects individually, CEO-effects individually, and CFO-effects individually. The panels within the table report the results for each dependent variable, and each panel contains separate F-tests examining the significance of the control variables and the manager fixed-effects as a group. Also, each panel examines the number of individually significant manager-specific coefficients based on robust standard errors and the distribution of the coefficients for the manager-effects. Refer to the Appendix for detailed variable definitions.

First, consistent with prior earnings management studies, the results of the F-statistic examining whether the control variables are significant to the model as a whole ("F-Test of Controls = 0") suggest that at least some of the control variables are significant within the models. Next, the second F-test examining the significance of the manager-effects ("F-Test of Manager Fixed Effects = 0") indicate that, at least collectively, the manager-specific fixed-effects are significant to the models. In untabulated analyses, I also find that F-statistics for each of the three manager groups in column (1) are significant, which suggests that audit committee chairs, CEOs, and CFOs as separate groups are significantly associated with the FIN_RPT measures, even when controlling for the influence of the other manager groups. Similarly, columns (2) through (4) also suggest that the significance is not driven by one particular management group as the F-statistic is significant when separately adding the AC, CEO, and CFO indicator variables.

Along with the F-statistics, I also examine the number of significant coefficients for the individual manager fixed-effects to determine whether the results are driven by a few influential managers ("F-Test of Manager Coefficients"). If they are, the number of significant coefficients should be no greater than what would be expected from a random sample. The results in each panel indicate that the number of significant manager-specific coefficients far exceed the number of coefficients that would be expected under the null at the 5% level.[5] For instance, in Panel A, column (1), there are 237 individual managers within the model. In a random sample, I would expect no more than 12 significant coefficients at the 5% level. However, in that particular model, there are 41

[5] This result also holds if I examine the significance at the 10% and 1% levels.

manager fixed-effects significant at the 5% level. Last, I examine the distribution of the managers' coefficients, and consistent with prior studies, the difference between the 25th percentile and 75th percentile indicates significant variation in each individual manager's accrual- and real earnings management-based styles.

The results thus far support H1 and, consistent with the predictions provided by UE theory, suggest that individual managers are significantly associated with corporate reporting and operating decisions. Specifically, these results indicate that audit committee chairs, CEOs and CFOs all appear to influence accounting- and non-accounting-based decisions. These results extend the findings in Ge et al. (2011) because they suggest that CEOs and CFOs both have managerial styles that influence corporate reporting and operating decisions. Additionally, these results add new findings to the literature on individual managers because they suggest that individual audit committee chairs also influence corporate reporting and operating decisions, even when controlling for the influence of individual CEOs and CFOs. This last result is consistent with survey evidence by Beasley et al. (2009). Although some of the survey responses indicate an ineffective audit committee, the survey evidence also indicates some audit committee members provide substantive oversight of the financial reporting process, particularly high risk areas related to revenue recognition, and some members extensively review management's judgments, estimates, and assumptions.

5.1.1 Additional Tests of Individual Managers' Influence

Although the results just discussed support H1, the analysis does not address a separate question of whether the managers in this study influence earnings differentially. For example, the results indicate that all three management groups in this analysis influence reporting and operating decisions, but they do not speak to whether certain styles dominate across the three groups. To address this question, I examine differences between the management groups for the estimated coefficients obtained from the models in Table 3, column (1), which includes all of the managers within the same model. The results of this analysis are presented in Table 4.

As presented in Table 4, the mean value of the audit committee chair coefficients from the discretionary accrual model in Table 3, column (1), Panel A, is -0.005. Similarly, the mean values of the coefficients for CEOs and CFOs from the same model are 0.008 and -0.014, respectively. Although the differences between the means is not significant when comparing the ACs with CEOs or ACs with CFOs, the difference is significant (p-value <0.05) between CEOs and CFOs. Relating the sign of the means to the earnings management literature suggests that while all three management groups have particular styles concerning discretionary accrual decisions, CEOs, on average, report more positive discretionary accruals, while CFOs report more negative discretionary accruals, and the difference between them is significantly different. The signs of the mean values of the coefficients from the quality of accruals, abnormal cash flow, and abnormal production models suggest a similar result, but the differences between these

TABLE 4
Tests of Individual Managers' Coefficients

Mgr Group	N	Mean	p-value	Mgr Group	N	Mean	p-value
Discretionary Accruals				**Abnormal Cash Flow**			
AC	66	-0.005		AC	66	0.013	
CEO	66	0.008	0.454	CEO	66	-0.008	0.228
AC	66	-0.005		AC	66	0.013	
CFO	105	-0.014	0.617	CFO	106	0.001	0.478
CEO	66	0.008		CEO	66	-0.008	
CFO	105	-0.014	0.047	CFO	106	0.001	0.360
Absolute Discretionary Accruals				**Abnormal Production**			
AC	66	0.013		AC	66	-0.007	
CEO	66	-0.007	0.295	CEO	67	0.006	0.474
AC	66	0.013		AC	66	-0.007	
CFO	105	-0.019	0.067	CFO	107	-0.005	0.903
CEO	66	-0.007		CEO	67	0.006	
CFO	105	-0.019	0.291	CFO	107	-0.005	0.421
Quality of Accruals				**Abnormal Discretionary Expenses**			
AC	66	-0.008		AC	66	-0.025	
CEO	66	0.002	0.153	CEO	67	-0.015	0.694
AC	66	-0.008		AC	66	-0.025	
CFO	106	-0.002	0.380	CFO	107	-0.008	0.443
CEO	66	0.002		CEO	67	-0.015	
CFO	106	-0.002	0.448	CFO	107	-0.008	0.719

This table examines the coefficients for the individual manager fixed-effects estimated in Table 3, column (1). Each box represents the coefficients obtained for each of the FIN_RPT variables. Within each box, I report the number of coefficients for each manager group (N), the mean value of the coefficients for each group (Mean), and the p-values from a t-test examining whether there is a significant difference between the means.

means are not statistically significant. Along with the significance of each manager group within the same model, the results of this analysis are important because they suggest that individuals serving in management positions associated with the reporting and operating process can influence corporate decisions in particular directions, even when controlling for the influence of other management positions at the company.

Due to the dataset design, there is a concern that my results show significance due to a random event occurring at one of the managers' firms which has a similar influence on the corporate decision. (Bamber et al. 2010; Dyreng et al. 2010) Although the time period and number of managers involved in my sample decrease the probability of this alternative explanation, I address this concern by examining the persistence of the managers' styles across both firms. This test also addresses the question of whether significance for my manager effects is driven by just one of the manager's firms in my sample. Specifically, I follow the test approach in Dyreng et al. (2010) and obtain the residual values from equation (1), excluding the manager-specific effects from the model. This allows the individual managers' effects to reflect themselves in the residual. Then, for each of the individual managers that were identified as significant at the 5% level from the results reported in Table 3, column (1), I calculate two mean residual values for each manager corresponding to their tenure at their first and second firm. Using the mean residual values, I then regress the mean residual from the manager's second firm on the mean residual from their first firm. The results of this analysis are presented in Table 5.

The tests of persistence presented in Table 5 indicate significantly positive coefficients (at the 5% and 10% level) for all of the FIN_RPT measures, except absolute

discretionary accruals. A significantly positive coefficient on the mean residual from the first firm suggests that the significant managers in the primary analysis are not driven by their influence at only one of the companies in the sample. Rather, these results show persistent decisions across both of the manager's firms.

In addition to the persistence of the manager effects, I also examine the influence of dataset design on my results by randomizing the firm-manager pairings. After randomizing the data, I would not expect significance for the manager-specific effects because this process assigns the managers to a firm-year for which they do not work. For this test, I determine the number of significant manager-specific coefficients when applying the primary models presented in Table 3, column (1), to the randomized data. The process of randomizing the data and estimating the manager-specific coefficients is repeated 1,000 times to create an empirical distribution based on the number of significant managers. In untabulated results, I find that the means of the distributions for all six FIN_RPT measures are around 7% of the 241 managers in the sample, which is far less than the number of significant managers identified in the primary analysis and only slightly above the 5% that we would expect from a random sample. These results provider further support that dataset design is not driving the significance of my primary results.

TABLE 5
Tests of Persistence of Manager-Effects Across Companies

	DISC_ ACR	ABS_ DISC_ACR	R_CHG_WC	R_CFO	R_PROD	R_DX
FIRST_MEAN_RESID	0.473***	0.394	0.330**	0.648***	0.288*	0.400**
Constant	-0.006	-0.014	-0.008	0.007	-0.008	0.008
Observations	39	31	45	39	64	68
adj-R^2	0.288	0.0347	0.0760	0.248	0.0404	0.0786

* significant at 10%; ** significant at 5%; *** significant at 1%

This table reports results examining the persistence of manager-effects across both companies in the sample. For this test, each manager with a significant coefficient in Table 3, column 1, is identified. Then, for those managers, mean residual values are calculated for both their first and second firm and only during the manager's tenure. The mean residual values for the second firm are then regressed on the mean residual values for the first firm. Estimated coefficients for the manager's mean residual values from the first firm are presented below for each FIN_RPT measure.

To date, this area of literature relies on fixed effect models to separate the incremental effect of the individual manager on firms' policies and decisions. However, if there is no correlation between the fixed effect and the explanatory variables, then a random effect model is a more efficient modeling approach. (Wooldridge 2002) Although I would expect correlation between the firm effects and the explanatory variables used in this analysis, I also examine whether random effects modeling can be used in this case based on the Hausman test. Across all six FIN_RPT measures, the p-values for the tests (untabulated) reject the null of no difference in the parameter estimates obtained from the fixed and random effects models. This suggests that a fixed effects modeling approach is more appropriate in this case.

Last, I examine whether industry effects are significantly influencing my results by examining the distribution of significant managers across the industries in the sample (Dyreng et al. 2010). Using Fama-French 17-industry classifications, I find (untabulated) that the number of industries containing a significant manager, with the significant managers for each FIN_RPT measure identified by the results in Table 3, column (1), ranges from 10 out of 17 to 16 out of 17 industries. Thus, it appears that industry effects are not driving my results.

5.2 Tests of Intervening Variables

In this set of analyses, I examine whether the association between individual managers and reporting and operating decisions is influenced by limits to managerial discretion or job demands (H2a and H2b). To examine this research question, I rely on a testing approach similar to that employed in Ge et al. (2011). That is, I split the sample into two groups based on whether the individual manager's average discretion and job demands across their career are more or less than the median discretion and job demands for the entire sample. To do this, I calculate the individual managers' average measure for each of the governance and job demand proxies based on the firm-years specific to each manager, across the firms for which the manager works, and only including the time periods covered by the individual managers' tenure at each firm. Results for the managerial discretion analysis are presented in Table 6, and the results for the job demands analysis are presented in Table 7.

Each panel within the tables reports the results from regressing model (1) on each manager group segregated by the individual discretion and job demands proxies, but for brevity, I only report the number of manager-specific indicator variables included in each model, the number of observations per regression analysis, and the F-statistic for the manager-specific fixed-effects. Consistent with H2a and H2b, I expect to find individual managers are only significantly associated with the reporting and operating decisions when their average governance is less (job demands are greater) than the sample median.

Because results are similar across all of the discretion and job demands proxies, I do not discuss the results individually, but as indicated by the significance of the F-statistics in Table 6, the results suggest that, contrary to H2a, individual managers are significantly associated with corporate reporting and operating decisions regardless of their level of managerial discretion. Specifically, I do find insignificance for some of the managers in both the high governance and low governance settings, but in general, I find the F-statistic is significant at the 5% level in both settings. The results in Table 7 are similar and suggest that individual managers influence reporting and operating decisions irrespective of the amount of demands placed on the individuals, which is also contrary to H2b.

These results are inconsistent with the portion of Upper Echelon theory that suggests managerial influence over corporate decisions varies with the amount of discretion afforded to and demands placed on individual managers. These results could suggest that some individual managers' traits or characteristics significantly reflect themselves in corporate decisions regardless of the company's operating environment.

TABLE 6
Individual Manager Effects by Manager Group and Individual Governance Proxy

	Audit Chairs		CEOs		CFOs	
	>Govern	<Govern	>Govern	<Govern	>Govern	<Govern
Panel A: Results by Big N						
Mgrs per Model	49	17	57	9	97	8
DISC_ACR						
N per model	1402	438	1679	303	2685	214
F-stat	2.419***	3.030***	1.890***	0.535	2.690***	0.757
ABS_DISC_ACR						
N per model	1402	438	1679	303	2685	214
F-stat	1.734***	6.496***	1.755***	0.298	1.902***	2.075**
R_CHG_WC						
N per model	1298	418	1559	289	2527	209
F-stat	12.85***	1.924**	1.968***	2.769***	2.940***	0.903
R_CFO						
N per model	1435	463	1682	309	2717	224
F-stat	5.303***	13.34***	2.557***	1.620	2.233***	4.442***
R_PROD						
N per model	1403	472	1652	325	2626	248
F-stat	4.529***	4.905***	5.165***	1.985**	3.553***	1.893**
R_DX						
N per model	1442	502	1684	341	2733	263
F-stat	7.159***	2.052***	5.009***	5.395***	3.212***	1.297
Panel B: Results by Dominance						
Mgrs per Model	21	45	25	41	36	69
DISC_ACR						
N per model	560	1280	738	1240	1000	1997
F-stat	2.380***	2.818***	1.807***	1.449**	2.370***	2.450***
ABS_DISC_ACR						
N per model	560	1280	738	1240	1000	1997
F-stat	1.230	3.954***	1.333	1.547**	1.682***	1.821***
R_CHG_WC						
N per model	524	1192	690	1154	960	1867
F-stat	12.41***	2.140***	2.273***	1.776***	2.940***	2.730***
R_CFO						
N per model	577	1321	738	1249	1023	2016
F-stat	1.718**	10.60***	2.581***	2.066***	2.383***	2.179***
R_PROD						
N per model	580	1295	740	1233	981	1990
F-stat	3.922***	5.496***	3.723***	5.442***	3.563***	3.331***
R_DX						
N per model	593	1351	769	1252	1039	2055
F-stat	9.706***	4.187***	5.716***	4.476***	3.351***	2.785***

TABLE 6 (continued)

	Audit Chairs		CEOs		CFOs	
	>Govern	<Govern	>Govern	<Govern	>Govern	<Govern
Panel C: Results by Market Share						
Mgrs per Model	41	25	41	25	66	39
DISC_ACR						
N per model	1077	763	1224	776	1822	1169
F-stat	2.534***	2.968***	2.152***	1.044	2.533***	2.433***
ABS_DISC_ACR						
N per model	1077	763	1224	776	1822	1169
F-stat	1.502**	6.365***	1.371*	1.876***	2.144***	1.450**
R_CHG_WC						
N per model	1010	706	1141	723	1732	1089
F-stat	11.05***	2.562***	2.391***	1.833***	2.899***	2.700***
R_CFO						
N per model	1114	784	1230	779	1861	1172
F-stat	3.868***	10.74***	2.358***	2.246***	2.447***	1.498**
R_PROD						
N per model	1097	778	1221	774	1793	1170
F-stat	2.809***	6.165***	3.976***	6.079***	3.157***	3.752***
R_DX						
N per model	1135	809	1261	782	1881	1207
F-stat	6.709***	4.109***	4.841***	4.558***	3.731***	2.067***
Panel D: Results by Most Clients						
Mgrs per Model	27	39	27	39	49	56
DISC_ACR						
N per model	673	1167	850	1154	1327	1636
F-stat	3.139***	1.868***	1.508**	1.772***	1.776***	3.186***
ABS_DISC_ACR						
N per model	673	1167	850	1154	1327	1636
F-stat	4.864***	1.798***	1.622**	1.606**	1.799***	2.055***
R_CHG_WC						
N per model	633	1083	792	1075	1273	1523
F-stat	2.576***	14.40***	1.540**	2.024***	2.440***	2.876***
R_CFO						
N per model	700	1198	850	1163	1358	1647
F-stat	10.20***	6.427***	2.275***	2.904***	2.021***	2.053***
R_PROD						
N per model	691	1184	848	1151	1308	1629
F-stat	5.876***	3.634***	5.111***	5.184***	2.530***	4.543***
R_DX						
N per model	723	1221	874	1173	1368	1692
F-stat	1.912***	8.132***	4.056***	5.668***	2.123***	4.105***

TABLE 6 (continued)

	Audit Chairs		CEOs		CFOs	
	>Govern	<Govern	>Govern	<Govern	>Govern	<Govern
Panel E: Results by Client Share						
Mgrs per Model	39	27	38	28	58	47
DISC_ACR						
N per model	1007	833	1157	821	1557	1412
F-stat	3.074***	2.087***	1.391*	1.691**	2.467***	2.025***
ABS_DISC_ACR						
N per model	1007	833	1157	821	1557	1412
F-stat	2.995***	2.381***	1.524**	1.539**	2.160***	1.695***
R_CHG_WC						
N per model	949	767	1080	764	1490	1321
F-stat	9.114***	2.250***	2.232***	1.949***	2.760***	2.589***
R_CFO						
N per model	1050	848	1166	821	1595	1423
F-stat	9.235***	8.916***	2.016***	2.708***	2.231***	1.992***
R_PROD						
N per model	1047	828	1148	825	1536	1418
F-stat	4.216***	3.560***	3.497***	6.333***	2.457***	4.675***
R_DX						
N per model	1089	855	1191	830	1614	1463
F-stat	4.902***	6.482***	3.429***	5.633***	2.930***	2.800***
Panel F: Results by Number of Clients						
Mgrs per Model	38	28	42	24	59	46
DISC_ACR						
N per model	1037	803	1247	735	1734	1281
F-stat	2.643***	2.229***	2.239***	0.820	2.934***	2.110***
ABS_DISC_ACR						
N per model	1037	803	1247	735	1734	1281
F-stat	4.304***	1.568**	1.549**	2.014***	2.211***	1.503**
R_CHG_WC						
N per model	971	745	1168	679	1645	1207
F-stat	10.95***	2.408***	2.104***	2.561***	3.504***	1.970***
R_CFO						
N per model	1072	826	1256	735	1761	1303
F-stat	10.43***	1.662**	2.569***	1.881***	2.126***	1.982***
R_PROD						
N per model	1051	824	1249	728	1716	1285
F-stat	5.467***	2.028***	4.572***	4.730***	3.471***	3.256***
R_DX						
N per model	1085	859	1290	735	1792	1331
F-stat	6.070***	3.067***	5.174***	5.198***	2.448***	4.183***

TABLE 6 (continued)

	Audit Chairs		CEOs		CFOs	
	>Govern	<Govern	>Govern	<Govern	>Govern	<Govern
Panel G: Results by Institutional Owners						
Mgrs per Model	42	24	36	30	61	44
			DISC_ACR			
N per model	1236	604	1129	871	1762	1255
F-stat	2.125***	3.301***	1.527**	1.973***	2.484***	2.280***
			ABS_DISC_ACR			
N per model	1236	604	1129	871	1762	1255
F-stat	1.960***	5.159***	1.458**	1.751***	1.871***	1.968***
			R_CHG_WC			
N per model	1157	559	1055	809	1671	1184
F-stat	2.177***	8.970***	1.413*	2.986***	3.166***	2.494***
			R_CFO			
N per model	1278	620	1132	877	1794	1272
F-stat	1.433**	12.15***	2.239***	2.720***	2.519***	1.723***
			R_PROD			
N per model	1258	617	1135	860	1754	1247
F-stat	3.933***	4.775***	5.683***	3.641***	2.572***	3.945***
			R_DX			
N per model	1303	641	1165	878	1809	1316
F-stat	3.211***	6.462***	5.720***	3.915***	2.806***	3.383***
Panel H: Results by BOD Size Measure						
Mgrs per Model	38	28	36	30	66	39
			DISC_ACR			
N per model	1057	783	1071	889	1856	1065
F-stat	2.803***	3.169***	1.444**	1.920***	2.036***	3.326***
			ABS_DISC_ACR			
N per model	1057	783	1071	889	1856	1065
F-stat	1.864***	5.101***	1.846***	1.320	1.696***	2.301***
			R_CHG_WC			
N per model	983	733	1001	826	1758	998
F-stat	3.079***	10.25***	1.833***	2.200***	2.545***	3.398***
			R_CFO			
N per model	1098	800	1080	889	1898	1065
F-stat	6.373***	9.390***	2.218***	3.269***	2.421***	1.820***
			R_PROD			
N per model	1106	769	1091	864	1868	1028
F-stat	3.808***	4.855***	4.835***	4.236***	3.007***	3.870***
			R_DX			
N per model	1144	800	1112	891	1946	1072
F-stat	4.503***	6.396***	5.683***	4.308***	3.191***	2.470***

TABLE 6 (continued)

	Audit Chairs		CEOs		CFOs	
	>Govern	<Govern	>Govern	<Govern	>Govern	<Govern
Panel I: Results by CEO Duality Measure						
Mgrs per Model	27	39	41	25	48	57
DISC_ACR						
N per model	851	989	1205	773	1388	1669
F-stat	2.283***	2.881***	1.450**	2.051***	3.224***	1.934***
ABS_DISC_ACR						
N per model	851	989	1205	773	1388	1669
F-stat	1.922***	3.804***	1.358*	1.894***	2.214***	1.949***
R_CHG_WC						
N per model	783	933	1125	719	1318	1565
F-stat	2.342***	9.710***	1.939***	1.735**	2.611***	2.899***
R_CFO						
N per model	866	1032	1214	773	1414	1685
F-stat	2.713***	11.02***	1.640***	4.135***	2.118***	2.172***
R_PROD						
N per model	860	1015	1214	759	1404	1626
F-stat	5.152***	3.327***	5.143***	3.960***	2.123***	4.510***
R_DX						
N per model	883	1061	1245	776	1450	1704
F-stat	4.304***	5.544***	5.164***	4.001***	3.319***	3.098***

* significant at 10%; ** significant at 5%; *** significant at 1%

This table reports results examining the overall significance of the coefficients on the AC, CEO, and CFO variables obtained from regressing the applicable FIN_RPT variable on the CONTROL variables, FIRM and YEAR fixed-effects, and the AC, CEO, and CFO fixed-effects. The regression models are run separately for each of the manager groups and for each of the high and low governance classifications as determined by the separate managerial discretion proxies. Each panel of his table reports the number individual managers classified as operating in either a high or low governance environment. The number of managers for each classification also represents the number of constraints used when calculating the corresponding F-statistic. The actual number of managers for each FIN_RPT regression model may vary slightly due to missing observations. Each panel also reports the number of observations per model ("N per model") and the F-test results examining the overall significance of the coefficients on the AC, CEO, and CFO variables.

TABLE 7
Individual Manager Effects by Manager Group and Individual Job Demands Proxy

	Audit Chairs		CEOs		CFOs	
	>Demand	<Demand	>Demand	<Demand	>Demand	<Demand
Panel A: Results by Number of Business Segments						
Mgrs per Model	53	13	39	27	65	40
DISC_ACR						
N per model	1586	254	1142	840	1870	1085
F-stat	2.520***	2.967***	1.529**	1.940***	2.747***	1.952***
ABS_DISC_ACR						
N per model	1586	254	1142	840	1870	1085
F-stat	1.642***	4.957***	1.671***	1.284	2.268***	1.019
R_CHG_WC						
N per model	1483	233	1064	783	1758	1029
F-stat	2.459***	5.610***	2.103***	1.547**	2.722***	3.037***
R_CFO						
N per model	1635	263	1151	840	1904	1093
F-stat	4.201***	10.02***	1.798***	2.250***	2.704***	1.558**
R_PROD						
N per model	1621	254	1152	825	1865	1064
F-stat	4.317***	2.560***	3.471***	6.925***	3.552***	3.220***
R_DX						
N per model	1681	263	1183	842	1949	1103
F-stat	3.750***	10.55***	3.799***	6.066***	3.279***	2.739***
Panel B: Results by Number of Geographic Segments						
Mgrs per Model	44	22	34	32	71	34
DISC_ACR						
N per model	1278	562	1024	954	2051	912
F-stat	2.730***	2.106***	2.160***	1.165	2.836***	1.517**
ABS_DISC_ACR						
N per model	1278	562	1024	954	2051	912
F-stat	2.905***	3.307***	2.110***	1.354*	2.214***	1.345*
R_CHG_WC						
N per model	1180	536	954	890	1948	847
F-stat	11.11***	2.102***	1.935***	2.153***	3.170***	1.687***
R_CFO						
N per model	1303	595	1027	960	2086	919
F-stat	10.35***	1.981***	2.191***	2.053***	2.125***	1.689***
R_PROD						
N per model	1295	580	1032	941	2060	878
F-stat	3.790***	4.197***	4.564***	3.920***	2.773***	4.121***
R_DX						
N per model	1333	611	1053	968	2126	934
F-stat	6.859***	2.350***	6.183***	3.531***	2.914***	3.279***

TABLE 7 (continued)

	Audit Chairs		CEOs		CFOs	
	>Demand	<Demand	>Demand	<Demand	>Demand	<Demand
Panel C: Results by Size						
Mgrs per Model	42	24	35	31	59	46
DISC_ACR						
N per model	1244	596	1058	902	1712	1211
F-stat	2.526***	3.556***	1.898***	1.389*	2.393***	2.768***
ABS_DISC_ACR						
N per model	1244	596	1058	902	1712	1211
F-stat	1.947***	4.761***	1.989***	1.258	1.745***	2.269***
R_CHG_WC						
N per model	1157	559	983	844	1629	1139
F-stat	2.330***	13.97***	1.514**	2.168***	3.324***	2.178***
R_CFO						
N per model	1285	613	1061	908	1754	1218
F-stat	9.176***	8.523***	1.807***	1.977***	2.119***	2.053***
R_PROD						
N per model	1285	590	1061	894	1728	1180
F-stat	3.961***	4.825***	6.176***	3.569***	2.974***	3.893***
R_DX						
N per model	1330	614	1092	911	1802	1229
F-stat	4.276***	5.926***	6.204***	4.338***	3.676***	2.147***
Panel D: Results by MTB						
Mgrs per Model	35	31	43	23	66	39
DISC_ACR						
N per model	973	867	1289	689	1841	1158
F-stat	2.814***	2.210***	1.716***	1.178	3.311***	1.221
ABS_DISC_ACR						
N per model	973	867	1289	689	1841	1158
F-stat	4.387***	1.368*	1.707***	1.426*	2.202***	1.232
R_CHG_WC						
N per model	891	825	1194	650	1746	1082
F-stat	12.44***	2.821***	1.711***	2.185***	3.043***	2.117***
R_CFO						
N per model	990	908	1289	698	1873	1168
F-stat	9.041***	5.306***	2.605***	1.378	2.546***	1.289
R_PROD						
N per model	953	922	1271	702	1823	1151
F-stat	4.680***	3.000***	5.767***	2.610***	3.784***	2.422***
R_DX						
N per model	990	954	1296	725	1885	1211
F-stat	6.916***	3.378***	5.856***	3.521***	2.721***	3.293***

TABLE 7 (cont.)

	Audit Chairs		CEOs		CFOs	
	>Demand	<Demand	>Demand	<Demand	>Demand	<Demand
Panel E: Results by Litigation Exposure						
Mgrs per Model	25	41	24	42	44	61
DISC_ACR						
N per model	604	1236	713	1265	1275	1704
F-stat	2.888***	2.307***	2.071***	1.149	2.024***	2.812***
ABS_DISC_ACR						
N per model	604	1236	713	1265	1275	1704
F-stat	5.708***	1.519**	2.317***	1.243	1.442**	2.041***
R_CHG_WC						
N per model	551	1165	663	1181	1200	1610
F-stat	8.990***	2.566***	1.589**	1.988***	3.051***	2.499***
R_CFO						
N per model	613	1285	713	1274	1284	1737
F-stat	8.847***	4.113***	2.605***	2.023***	1.909***	2.273***
R_PROD						
N per model	590	1285	704	1269	1247	1706
F-stat	6.181***	3.010***	7.856***	2.753***	2.809***	3.508***
R_DX						
N per model	614	1330	713	1308	1292	1784
F-stat	7.168***	2.632***	8.394***	2.943***	3.429***	3.069***
Panel F: Results by SOX						
Mgrs per Model	47	19	44	22	77	28
DISC_ACR						
N per model	1199	641	1370	634	2150	825
F-stat	2.814***	1.856**	1.277	2.263***	2.668***	2.038***
ABS_DISC_ACR						
N per model	1199	641	1370	634	2150	825
F-stat	3.568***	1.676**	1.598***	1.568**	1.841***	2.143***
R_CHG_WC						
N per model	1125	591	1277	590	2027	789
F-stat	10.15***	2.333***	1.572**	2.798***	3.059***	1.624**
R_CFO						
N per model	1242	656	1379	634	2184	840
F-stat	9.996***	2.273***	2.418***	1.795**	2.246***	1.958***
R_PROD						
N per model	1209	666	1363	636	2144	817
F-stat	4.453***	3.359***	4.820***	5.669***	3.641***	2.711***
R_DX						
N per model	1254	690	1389	658	2230	853
F-stat	5.548***	4.660***	4.347***	6.429***	3.495***	1.853***

* significant at 10%; ** significant at 5%; *** significant at 1%

This table reports results examining the overall significance of the coefficients on the AC, CEO, and CFO variables obtained from regressing the applicable FIN_RPT variable on the CONTROL variables, FIRM and YEAR fixed-effects, and the AC, CEO, and CFO fixed-effects. The regression models are run separately for each of the manager groups and for each of the high and low demands classifications as determined by the separate job demands proxies. Each panel of his table reports the number individual managers classified as operating in either a high or low demands environment. The number of managers for each classification also represents the number of constraints used when calculating the corresponding F-statistic. The actual number of managers for each FIN_RPT regression model may vary slightly due to missing observations. Each panel also reports the number of observations per model (“N per model”) and the F-test results examining the overall significance of the coefficients on the AC, CEO, and CFO variables.

5.2.1 Index Measures of Managerial Discretion and Job Demands

The individual measures for managerial discretion and job demands are not independent of each other and collectively exist within the company to varying degrees. To ensure that my results are not contingent upon one particular measure and the characteristics of that measure, I follow prior studies, such as Gompers et al. (2003) and Lara et al. (2009), and develop two index measures based on the proxies discussed above.

For each firm-year observation, I create an indicator variable for each unique managerial discretion and job demand proxy. Each indicator variable is assigned a value of one if the corresponding discretion and demand proxy evidences greater corporate governance or job demands for that particular firm-year observation based on a comparison with the median value for the sample. I sum the indicators to create two separate governance-related and job demands-related indices for each firm-year observation. Similar to the individual proxies, higher values of these indices suggest

greater governance (i.e., less discretion) and greater job demands. Using the two index values for each firm-year observation, I then calculate manager-specific average measures for the governance and job demand indices across each of the firms for which the manager works and split the sample using the same procedure discussed above. The results using the indices to split the sample are presented in Table 8.[6]

The results of the F-statistic in Table 8 indicate statistically significant manager-specific fixed-effects in both the high and low governance settings and high and low job demands settings. These results are consistent with the individual discretion and job demands measures and suggest that the managers in my sample significantly influence corporate reporting and operating decisions regardless of the amount of discretion they have or the job demands placed upon those managers.

[6] Untabulated results show that the means of the average governance index values for AC's, CEO's, and CFO's are 4.84, 4.66, and 4.81, and the means of the average demand index values are 3.04, 2.73, and 2.91, respectively. The corresponding median values for the governance index are 5, 5, and 5, while the median values for the corresponding demand index are 3, 3, and 3.

TABLE 8
Individual Manager Effects by Manager Group and Index Proxy

	Audit Chairs		CEOs		CFOs	
	>Govern	<Govern	>Govern	<Govern	>Govern	<Govern
Panel A: Results by Governance Index						
Mgrs per Model	30	36	24	42	45	60
DISC_ACR						
N per model	796	1,044	824	1,198	1,273	1,716
F-stat	2.324***	3.010***	1.989***	1.423**	2.503***	2.662***
ABS_DISC_ACR						
N per model	796	1,044	824	1,198	1,273	1,716
F-stat	1.498**	4.529***	1.266	1.697***	1.746***	2.013***
R_CHG_WC						
N per model	751	965	767	1,117	1,213	1,616
F-stat	13.67***	2.565***	1.619**	2.103***	2.804***	2.548***
R_CFO						
N per model	824	1,074	824	1,207	1,304	1,734
F-stat	4.438***	9.780***	2.259***	2.573***	2.445***	1.845***
R_PROD						
N per model	805	1,070	806	1,211	1,248	1,727
F-stat	3.449***	4.667***	4.599***	4.860***	3.609***	3.444***
R_DX						
N per model	829	1,115	826	1,239	1,309	1,788
F-stat	6.874***	4.441***	4.533***	4.765***	3.088***	2.825***
Panel B: Results by Job Demands Index						
	>Demand	<Demand	>Demand	<Demand	>Demand	<Demand
Mgrs per Model	39	27	19	47	47	58
DISC_ACR						
N per model	1,044	796	541	1,437	1,340	1,651
F-stat	2.564***	2.118***	1.928**	1.553**	1.985***	2.987***
ABS_DISC_ACR						
N per model	1,044	796	541	1,437	1,340	1,651
F-stat	2.918***	2.160***	2.729***	1.281*	1.869***	1.991***
R_CHG_WC						
N per model	969	747	497	1,347	1,271	1,560
F-stat	10.01***	2.183***	1.321	2.052***	2.932***	2.686***
R_CFO						
N per model	1,077	821	541	1,446	1,374	1,666
F-stat	11.01***	2.096***	2.319***	2.296***	1.883***	1.997***
R_PROD						
N per model	1,083	792	553	1,420	1,354	1,622
F-stat	5.122***	2.610***	7.767***	3.389***	3.064***	3.619***
R_DX						
N per model	1,121	823	564	1,457	1,414	1,685
F-stat	5.685***	4.302***	8.481***	3.654***	3.154***	2.651***

* significant at 10%; ** significant at 5%; *** significant at 1%

This table reports results examining the overall significance of the coefficients on the AC, CEO, and CFO variables obtained from regressing the applicable FIN_RPT variable on the CONTROL variables, FIRM and YEAR fixed-effects, and the AC, CEO, and CFO fixed-effects. The regression models are run separately for each of the manager groups and for both of the high and low governance and high and low job demands indices. Each panel of his table reports the number individual managers classified as operating in either a high or low demands environment. The number of managers for each classification also represents the number of constraints used when calculating the corresponding F-statistic. The actual number of managers for each FIN_RPT regression model may vary slightly due to missing observations. Each panel also reports the number of observations per model ("N per model") and the F-test results examining the overall significance of the coefficients on the AC, CEO, and CFO variables.

5.3 Observable Demographics and Corporate Decisions

To examine H3, I replace the manager-specific indicator variables in model (1) with the demographic measures discussed previously. This design provides information concerning the incremental ability of the demographic proxy to explain variation in the company's reporting characteristics beyond that provided by the firm-specific fixed-effects. Descriptive statistics on the individual managers' biographical information are presented in Table 9, Panel A. A comparison of the demographic characteristics with prior studies in this area of literature suggests that the managers' in my sample are comparable.

The results of the regression analyses are reported in Table 9, Panel B. Each column of Panel B represents a different FIN_RPT measure as the dependent variable, and each column corresponds with column (1) of Table 3, except replacing the manager-specific fixed-effects with the manager-specific demographic measures.

First, concerning the manager's age and MBA status, I find that ACs and CEOs born before WWII report more negative discretionary accruals (-0.033 and -0.017, respectively). These results suggest that older audit committee chairs and CEOs are more conservative in their reporting and operating decisions, consistent with the results in Bamber et al. (2010) and Bertrand and Schoar (2003). Similarly, CFO's born before WWII report higher quality accruals (-0.022), but the same demographic of CEO's report lower quality accruals (0.008). This demographic measure is not significant in the other models.

TABLE 9
Individual Manager Demographics on Financial Reporting Measures

Panel A: Descriptive Statistics for Demographic Data

	AC		CEO		CFO		Total	
N by Manager Type	66		68		107		241	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Master's Degree	33	50	41	60	69	64	143	59
MBA Degree	30	45	26	38	62	58	118	49
Doctorate Degree	2	3	7	10	0	0	9	4
JD Degree	5	8	11	16	3	3	19	8
CPA	31	47	6	9	46	43	83	34
Military Experience	3	5	5	7	4	4	12	5
International Experience	9	14	13	19	23	21	45	19
Pre_WWII	16	24	29	43	9	8	54	22
Mean Birth Year	1952	N/A	1947	N/A	1953	N/A	1951	N/A

TABLE 9 (continued)

Panel B: Regression results

	DISC_ ACR	ABS_ DISC_ ACR	R_ CHG_ WC	R_CFO	R_PROD	R_DX
AC_PRE_WWII	-0.033*	0.011	-0.010	0.020	0.022	-0.011
CEO_PRE_WWII	-0.017*	-0.014	0.008*	-0.011	-0.008	0.021
CFO_PRE_WWII	-0.016	-0.002	-0.022***	0.001	-0.011	-0.027
AC_MILITARY	0.119***	0.020	0.016	-0.038	0.016	0.011
CEO_MILITARY	0.030	-0.032	-0.009	0.014	0.012	-0.039*
CFO_MILITARY	0.035	0.021	0.020***	-0.003	0.027	0.035
AC_MBA	-0.032	0.009	-0.004	-0.016	-0.028*	0.011
CEO_MBA	0.006	0.041***	0.008*	-0.008	0.031***	-0.010
CFO_MBA	-0.024**	-0.019**	-0.011***	0.007	-0.014	0.017
AC_CPA	-0.012	0.021	-0.006	0.001	0.009	-0.014
CEO_CPA	0.012	-0.077*	0.002	-0.031	0.087***	-0.140**
CFO_CPA	-0.014	-0.004	0.001	0.006	-0.007	-0.025**
AC_JD	-0.061*	0.041	-0.023**	0.053**	0.039	-0.008
CEO_JD	0.003	-0.000	-0.004	0.006	0.017	-0.021
CFO_JD	0.021	0.013	0.002	0.004	-0.081***	0.093***
AC_DOCTORATE	0.016	-0.022	0.026	-0.017	-0.093**	0.029
CEO_DOCTORATE	0.021	-0.023	0.002	0.010	-0.047***	0.031*
AC_TOP10	0.029	0.009	0.006	0.043**	-0.015	-0.009
CEO_TOP10	-0.009	-0.048***	-0.010*	0.006	-0.022	-0.006
CFO_TOP10	0.024**	-0.002	0.008*	-0.010	0.006	-0.010
AC_INTERNATIONAL	0.049**	-0.006	0.004	-0.024	0.011	-0.024
CEO_INTERNATIONAL	0.000	0.040*	-0.006	-0.009	0.005	0.015
CFO_INTERNATIONAL	-0.021	-0.016	0.001	0.004	0.010	0.004
Observations	6,032	6,032	5,666	6,141	6,043	6,269
adj-R^2	0.319	0.265	0.159	0.410	0.702	0.669

* significant at 10%; ** significant at 5%; *** significant at 1%

This table reports the results examining the ability of demographic measures to explain financial reporting decisions. Panel A provides descriptive statistics concerning the demographic data. Frequency shows how many managers within the sample have that particular attribute. % shows the percentage of managers with that attribute compared to the total number of managers. Mean Birth Year represents the average birth year for the managers in the sample. Panel B reports the coefficient estimates on the demographic measures obtained from regressing the applicable FIN_RPT variable on the CONTROL variables, FIRM and YEAR fixed-effects, and the demographic measures. Significance of the coefficients is determined using robust standard errors. Each column represents a different FIN_RPT dependent variable. Refer to the Appendix for detailed variable definitions.

For the manager's MBA status, I find that CFOs with an MBA report more negative discretionary accruals (-0.024), smaller absolute accruals (-0.019), and higher quality of accruals (-0.011). Relating the signs of these coefficients to the earnings management literature suggests that CFOs with an MBA report higher quality financial results. Alternatively, CEOs with an MBA report larger absolute accruals (0.041), lower quality accruals (0.008), and abnormally high production costs (0.031), which are all indicative of lower quality financial results. Although the results for CFOs with an MBA are counter to the arguments that MBA programs engender or encourage aggressive management behavior (Bamber et al. 2010), the results for the CEOs are consistent with this criticism. Also, these results are consistent with the previous findings that CFOs have significantly more negative discretionary accruals than CEOs.

Next, the CFO's CPA status is only significantly negatively associated with discretionary expenses, but the results suggest that CEOs with a CPA certification report smaller absolute accruals (-0.077), abnormally high production costs (0.087), and abnormally low discretionary expenses (-0.140). This last set of results for the CEO provides some evidence that CEOs who are CPAs evidence greater real earnings management activities. Intuitively, I would expect managers who are CPAs to engage in less earnings management activities, as suggested by the results for CEOs with a CPA

and absolute discretionary accruals, due to training and ethical compliance requirements associated with that certification. However, combining the CEO's CPA and real activities management results with the results for the comparable accrual-based measures, these results could suggest that CEO's who have CPA training rely less on accrual-based means to influence earnings and more on real activities management, which is consistent with the idea that real activities management draws less scrutiny from auditors and regulators. (Chi et al. 2011; Cohen et al. 2008)

Although this analysis provides little evidence concerning the explanatory ability of audit committee chair's demographics, the results do provide some evidence concerning the association between corporate reporting and operating decisions and the observable demographics of CEOs and CFOs. As such, I reject H3.[7]

[7] Because theory suggests that limits to managerial discretion and job demands intervene in the association between individual managers and corporate decisions, I also examine whether these environmental factors influence the association between observable managerial demographics and corporate decisions. To examine this question, I segregate the sample based on more or less managerial discretion and job demands as discussed previously. Then, similar to the analysis presented in Table 6, I replace the manager-specific indicator variables with the observable demographic measures available for each manager. The results (untabulated) suggest no clear pattern of significance for the demographic measures between the different operating environments. That is, I obtain significance on some of the demographic measures in both the high and low governance environments and high and low job demands environments, which suggests that environmental factors do not influence the ability of demographic measures to explain managers' reporting and operating decisions

6. SENSITIVITY ANALYSES

6.1 Alternative Measures of Reporting and Operating Activity

My primary analyses rely on standard measures for discretionary accruals, quality of accruals, and real activities management. Relying on these standard measures provides the benefit of making my results generalizable to the broader literature. However, recent papers suggest that these measures may suffer from measurement error (Cohen et al. 2011; DeFond 2010; Francis et al. 2005a; Jones et al. 2008; Kothari et al. 2005).

To examine the sensitivity of my results, I perform the same analyses discussed above using alternative FIN_RPT measures. Because performance could contribute to management turnover within my sample, I include ROA as a control variable in my models. However, Kothari et al. (2005) and Cohen et al. (2011) also suggest that discretionary accrual and real earnings management measures require adjustments for performance when calculating ―normal" values. Therefore, I also examine the influence of performance on the analyses discussed above by including current period ROA in the calculation of normal values for each of the discretionary accrual and real earnings management measures and, alternatively, using the performance-matched approach discussed in Kothari et al. (2005) based on closest current period ROA for each of the same measures. In untabulated analyses, the results are the same when calculating normal values including current period ROA as a control variable in the first stage model. For the performance-matched approach, the CEOs as a group are not significantly

associated with DISC_ACR or R_CFO in the primary models, and ACs are only significantly associated with ABS_DISC_ACR at the 0.10 level. All other inferences are similar. Along with performance adjustments, I also examine the accrual quality model adjustments recommended by McNichols (2002). The adjustments for change in sales and PPE do not change the results for R_CHG_WC. Thus, I conclude that my results are robust to these alternative measures.

6.2 Demographic Measures Explaining Individual Manager's Styles

My primary demographic tests examine whether observable demographic measures are directly associated with corporate reporting and operating decisions. An alternate, but related, research question is whether the observable demographic measures explain individual manager's reporting and operating styles.

To examine this question, I follow the approach in Bamber et al.'s (2010) and regress the coefficients for each individual managers' fixed-effect on the corresponding managers' demographic measures. The coefficients are obtained from the primary regression models reported in Table 3, column (1), and proxy for the unique reporting and operating styles of each individual manager. Obtaining a statistically significant result in these models suggests that a particular demographic measure significantly explains the individual manager's style being examined.

The results of this analysis are reported in Table 10, and they indicate significance for some of the demographic measures across each of the models. For instance, in the discretionary accrual (DISC_ACR) model results presented in Table 10, Panel A, the sign

of the MBA, CPA and JD measures are significantly negative which suggests that audit committee chairs with these characteristics have styles associated with more negative discretionary accruals. These results are consistent with the literature that suggests audit committee members with accounting- and financial-expertise differentially impact corporations' financial reporting decisions. (DeFond et al. 2005; Krishnan and Visvanathan 2008)

Consistent with the results in Table 9, I also find that CEOs with an MBA have styles that evidence larger absolute accruals (Table 10, Panel B) and lower accrual quality (Table 10, Panel C), while CEOs with a CPA have styles that generate smaller absolute accruals (Table 10, Panel B), abnormally high production costs (Table 10, Panel E), and abnormally low discretionary expenses (Table 10, Panel F). These results complement my primary findings and suggest that the direct associations between observable demographics and the corporate reporting and operating decisions I observed previously are not a product of my testing method.

TABLE 10
Manager-Specific Coefficients on Individual Manager Demographics

	Audit Chairs	CEOs	CFOs
	(1)	(2)	(3)
Panel A: Results for DISC_ACR			
MBA	-0.077*	-0.007	-0.026
DOCTORATE	0.000	0.020	N/A
JD	-0.116*	0.000	0.023
CPA	-0.075**	0.023	-0.017
MILITARY	0.116	0.040	0.016
INTERNATIONAL	0.022	-0.013	-0.024
PRE_WWII	-0.056	-0.029	-0.007
TOP 10	0.051	-0.000	0.020
Observations	66	66	105
	High Litigation Exposure		
MBA	-0.076	0.085**	-0.044
DOCTORATE	-0.062	-0.132*	N/A
JD	0.079	0.088**	-0.116**
CPA	0.074	N/A	0.001
MILITARY	N/A	-0.054	0.044
INTERNATIONAL	-0.030	0.038	-0.023
PRE_WWII	0.088	-0.013	0.002
TOP 10	0.016	-0.040	0.034
Observations	25	24	44
Panel B: Results for ABS_DISC_ACR			
DOCTORATE	-0.013	-0.009	N/A
JD	0.105	0.030	0.018
CPA	0.036	-0.064*	0.003
MILITARY	0.019	-0.036	0.013
INTERNATIONAL	0.002	0.057*	-0.005
PRE_WWII	0.034	0.002	0.006
TOP 10	0.021	-0.049*	-0.004
Observations	66	66	105
	High Litigation Exposure		
MBA	0.123	0.011	-0.010
DOCTORATE	-0.119	-0.079	N/A
JD	-0.059	-0.002	0.042
CPA	-0.032	N/A	0.010
MILITARY	N/A	-0.000	0.062**
INTERNATIONAL	0.194	-0.025	-0.002
PRE_WWII	-0.027	0.017	0.012
TOP 10	-0.143	-0.026	0.000
Observations	25	24	44

TABLE 10 (continued)

	Audit Chairs	CEOs	CFOs
	(1)	(2)	(3)
Panel C: Results for R_CHG_WC			
MBA	-0.006	0.014*	-0.014
DOCTORATE	0.023	0.002	N/A
JD	-0.030	-0.001	0.000
CPA	-0.019	0.010	-0.002
MILITARY	0.027	-0.009	0.017
INTERNATIONAL	-0.001	-0.003	0.002
PRE_WWII	-0.008	0.015**	-0.024*
TOP 10	0.013	-0.012	0.007
Observations	66	66	107
	High Litigation Exposure		
MBA	0.042	0.002	0.002
DOCTORATE	0.008	-0.009	N/A
JD	0.076*	0.028**	-0.018
CPA	-0.015	N/A	0.001
MILITARY	N/A	0.015	0.029
INTERNATIONAL	-0.039	-0.003	-0.028*
PRE_WWII	0.072**	0.014	-0.020
TOP 10	0.015	0.015	0.003
Observations	25	24	44
Panel D: Results for R_CFO			
MBA	-0.034	-0.004	0.017
DOCTORATE	-0.019	0.006	N/A
JD	0.071	0.017	0.008
CPA	0.022	-0.033	0.013
MILITARY	-0.033	0.020	-0.010
INTERNATIONAL	-0.031	0.001	0.011
PRE_WWII	0.022	0.003	-0.001
TOP 10	0.049	0.002	-0.014
Observations	66	66	106
	High Litigation Exposure		
MBA	0.022	-0.040	0.014
DOCTORATE	-0.008	0.082	N/A
JD	-0.089	-0.078**	0.065
CPA	-0.043	N/A	0.021
MILITARY	N/A	-0.025	-0.014
INTERNATIONAL	-0.050	-0.020	0.002
PRE_WWII	-0.070	-0.002	-0.013
TOP 10	-0.015	-0.019	-0.003
Observations	25	24	44

TABLE 10 (continued)

	Audit Chairs	CEOs	CFOs
	(1)	(2)	(3)
Panel E: Results for R_PROD			
MBA	-0.003	0.018	-0.024
DOCTORATE	-0.064	-0.040	N/A
JD	0.077	0.011	-0.085*
CPA	0.032	0.078*	-0.014
MILITARY	0.014	0.034	0.044
INTERNATIONAL	0.032	-0.013	0.011
PRE_WWII	0.030	-0.026	-0.026
TOP 10	-0.031	-0.013	0.001
Observations	66	67	107
	High Litigation Exposure		
MBA	-0.160*	0.017	0.062
DOCTORATE	0.147	-0.075	N/A
JD	-0.087	0.021	-0.051
CPA	-0.051	N/A	0.021
MILITARY	N/A	-0.210	-0.041
INTERNATIONAL	-0.002	0.069	0.005
PRE_WWII	0.010	-0.023	-0.027
TOP 10	0.108	-0.005	-0.039
Observations	25	24	44
Panel F: Results for R_DX			
MBA	0.000	-0.008	0.020
DOCTORATE	0.080	0.027	N/A
JD	-0.009	-0.058	0.097
CPA	-0.020	-0.164***	-0.022
MILITARY	0.029	-0.058	0.019
INTERNATIONAL	-0.024	0.031	0.000
PRE_WWII	0.017	0.022	-0.007
TOP 10	0.028	0.004	-0.001
Observations	66	67	107
	High Litigation Exposure		
MBA	0.114	-0.032	-0.042
DOCTORATE	0.022	-0.015	N/A
JD	0.032	-0.016	-0.073
CPA	0.062	N/A	0.022
MILITARY	N/A	0.259	0.036
INTERNATIONAL	-0.032	-0.065	-0.019
PRE_WWII	0.054	0.006	-0.033
TOP 10	0.083	0.119	0.010
Observations	25	24	44

* significant at 10%; ** significant at 5%; *** significant at 1%

This table reports the results from regressing the coefficients for the manager-specific fixed-effects estimated in Table 3, column 1, on the demographic data obtained for each individual manager. Each panel within the table represents a different FIN_RPT variable and reports the parameter estimates for the demographic measures when coefficient estimates were obtained from the primary regression results and when the coefficients estimates were obtained only for those managers identified as operating in a highly litigious industry in Table 6. Intercepts are included in each model but are omitted for brevity.

Because particular demographics may reflect themselves more in some settings, I also apply this alternative testing approach to those companies and managers that are identified as operating in a highly litigious industry based on my splitting technique and regress the individual managers' coefficients on the demographic measures, because the significance of a Juris Doctorate degree on managers' decisions should be most apparent in this particular setting. The results of this analysis are also reported within Table 10.

Although the results suggest other demographics are also significant in this particular setting, the results also show that CEOs' with a Juris Doctorate degree have styles that generate positive discretionary accruals (Table 10, Panel A), lower quality of accruals (Table 10, Panel C), and abnormally low cash flows (Table 10, Panel D). Focusing just on the managers in the high litigation environment only produces 24 manager coefficients available for testing, so I am cautious about drawing conclusions based on this analysis. However, these results do provide additional evidence that observable demographics are associated with individual managers' styles in meaningful ways.

6.3 Interrelationships between Manager's Demographics

Although demographics are observable, individuals are not typically defined or completely influenced by one particular event or experience. For instance, attending a "Top 10" MBA program might influence a manager's decisions, but that manager likely does not solely rely on that experience when making decisions. Rather, individuals' decisions and cognitive frames likely reflect the culmination of experiences that occur throughout their lifetime, which should result in interrelated influences across and within the managers in my sample. Because this aspect of demographic testing has not been examined previously in this literature, I take an exploratory approach to examining this issue.

To examine the interrelationships between the demographics and whether those interrelationships explain managers' reporting styles, I rely on an approach discussed in Johnson (1998). First, I calculate the correlation coefficients for the individual managers' demographic measures. The results of this analysis are presented in Table 11, Panel A. The correlation coefficients are based on the correlations of the demographic measures discussed previously for each of the 241 individual managers identified in the primary sample.

TABLE 11
Grouping of Demographic Measures

Panel A: Correlation Coefficients

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
MASTERS	(1)	1.00									
MBA	(2)	**0.81**	1.00								
DOCTORATE	(3)	0.12	-0.11	1.00							
JD	(4)	**-0.23**	**-0.26**	-0.07	1.00						
CPA	(5)	**-0.24**	**-0.15**	**-0.14**	-0.08	1.00					
MILITARY	(6)	**0.19**	**0.20**	-0.05	-0.07	-0.09	1.00				
INTERNATIONAL	(7)	0.03	-0.02	**0.13**	-0.06	-0.01	0.04	1.00			
BIRTH_YEAR	(8)	-0.10	-0.06	-0.10	-0.01	**0.25**	**-0.14**	-0.05	1.00		
PRE_WWII	(9)	-0.00	-0.01	0.05	0.03	**-0.24**	0.06	-0.03	**-0.72**	1.00	
TOP_10	(10)	**0.37**	**0.45**	**-0.13**	-0.06	-0.07	0.06	0.11	-0.01	0.04	1.00

TABLE 11 (continued)

Panel B: Regression Results

	DISC_ ACR	ABS_ DISC_ ACR	R_ CHG_ WC	R_CFO	R_PROD	R_DX
AC_GRP1	-0.010	0.008	0.003	0.006	-0.029**	0.006
CEO_GRP1	0.009	0.006	-0.005	-0.000	0.012	-0.011
CFO_GRP1	0.000	-0.014*	-0.004	0.004	-0.006	0.003
AC_GRP2	0.037**	-0.005	0.005	-0.010	-0.004	-0.017
CEO_GRP2	0.004	0.006	-0.005	-0.002	-0.022*	0.029**
CFO_GRP2	-0.022	-0.014	0.001	0.001	0.008	0.011
AC_GRP3	-0.008	0.024*	-0.006	0.004	0.011	-0.016
CEO_GRP3	0.008	-0.065	0.006	-0.035	0.094***	-0.140**
CFO_GRP3	-0.015*	-0.005	0.001	0.005	-0.013	-0.017*
AC_GRP4	-0.022	0.014	-0.010	0.018	0.020	-0.012
CEO_GRP4	-0.021**	-0.015*	0.009**	-0.011	-0.004	0.015
CFO_GRP4	-0.015	-0.003	-0.021***	-0.004	-0.007	-0.021
Constant	0.160***	0.217***	0.095***	-0.081*	-0.238***	0.379***
Observations	6,032	6,032	5,666	6,141	6,043	6,269
adj-R^2	0.317	0.264	0.158	0.410	0.701	0.669

* significant at 10%; ** significant at 5%; *** significant at 1%

This table examines the interrelationships between the demographic measures and whether the demographic measures combine to better explain companies reporting and operating decisions. Panel A of this table provides correlation coefficients for each of the demographic measures. Significant correlation coefficients at the 5% level are indicated in BOLD. The observations used to calculate the correlation coefficients equal the 241 individual managers identified in the primary sample. Panel B of this table presents regression results after grouping the demographic measures based on the correlations identified in Panel A. For an explanation of the specific demographics included within each grouping, see discussion in the text.

As indicated in Table 11, Panel A, MASTERS, MBA, and TOP_10 are all significantly positively correlated at the 5% level, with MASTERS and MBA having the highest positive correlation of 0.81. As such, I group these demographics into one measure by creating an indicator variable (GRP_1) equal to one if the individual manager has any of these characteristics, and zero otherwise. Although those correlations are not surprising, one interesting finding from this analysis is that MILITARY is also significantly positively correlated with MASTERS and MBA. As such, I also include those with military experience in GRP_1. Similar to GRP_1, I next define GRP_2 based on an indicator variable equal to one if the manager has a doctorate degree or international experience due to a significantly positive correlation coefficient of 0.13 (Table 11, Panel A).

For the remaining variables, I note the following. First, CPA and JD are both significantly negatively associated with MASTERS and MBA, but not significantly associated with one another. This result is consistent with prior studies that suggest different career tracks for those with a finance, accounting, or legal background. Second, I note that CPA is positively associated with BIRTH_YEAR and negatively associated with PRE_WWII, which both suggest that younger managers are more likely to have a CPA certification. Considering the significantly negative associations between these demographic measures, I create an indicator variable for each of these measures. Specifically, GRP_3 is equal to one if the manager is a CPA, and zero otherwise. GRP_4 is equal to one if the manager was born before World War II (i.e., pre_WWII is equal to one), and GRP_5 is equal to one if the manager has a JD degree. Although this

approach could still allow for the same manager to evidence multiple characteristics (e.g., GRP_1 and GRP_4 equal one for the same manager), a scan of the resulting classifications indicates that none of the individual managers have all of these characteristics (i.e., the –GRP" indicator variables are not all equal to one for any particular manager).

When I replace the individual demographic measures in Table 9 with the GRP_1 through GRP_4 demographic measures (GRP_5 being the base group), I find, as presented in Table 11, Panel B, no clear pattern of significance for the –GRP" variables. In fact, I lose some significance for the GRP variables compared to the individual demographic measures. For example, none of the GRP_1 variables are significantly associated with the discretionary accrual or accrual quality measures, where some of the MBA variables were previously significant. However, this analysis does indicate that CEO's with a CPA (i.e., GRP_3) have particular styles concerning abnormal production and discretionary expenses.

7. CONCLUSIONS

Relying on neoclassical economic and agency theories, many prior studies assume that individual managers are not significant determinants of corporate policies and decisions. However, recent studies suggest that individual manager's "styles" can impact corporate policies and decisions in economically meaningful ways (Bamber et al. 2010; Bertrand and Schoar 2003; Dyreng et al. 2010; Ge et al. 2011). To explain these findings, this stream of literature relies on the assumptions and predictions provided by Upper Echelon theory (Hambrick and Mason 1984). This theory posits that an individual's bounded rationality results in incomplete analyses and a tendency to rely on their own personal "experiences, values and personalities" when analyzing outcomes. (Hambrick 2007) As a result, individual characteristics may evidence themselves in corporate policies and decisions. Consistent with this theory, I examine whether individual managers influence corporate reporting and operating decisions.

The results of my primary analysis are consistent with the theory and suggest that individual audit committee chairs, CEOs, and CFOs are all significantly associated with corporate reporting and operating decisions. Specifically, the results suggest that these individuals influence non-accounting-based activities (i.e., real activities measures), as well as accounting-based activities (i.e., accrual-related measures). However, I also find that the influence of these individuals is not impacted by the environment in which they operate. That is, I find that the level of managerial discretion and job demands do not significantly intervene in the association between these individual managers and their

accounting- and non-accounting-based activities. Last, I explore whether the association between individual managers and corporate reporting and operating decisions is explained by observable demographics. My results suggest that some observable demographic characteristics, such as the manager's age, MBA and CPA status, explain some of their decisions, and the directional nature of these decisions appears to vary with the manager's position at the company.

My results provide strong evidence that individual managers are significantly associated with companies' accrual-based and real activities-based decisions, and this association is not influenced by the environment in which the manager operates. These results are important because they increase our knowledge concerning the determinants of corporate reporting and operating decisions, and they suggest that each of the management groups examined in this study significantly influence corporate reporting decisions, even though audit committee chairs are tasked with monitoring and overseeing inside management and CFOs technically report to CEOs.

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APPENDIX

To obtain the expected values discussed below, I require at least 15 observations with non-missing data for each fiscal year and 2-digit SIC combination. Unless otherwise indicated, specific variable references refer to variable names within the Compustat database.

FINANCIAL REPORTING MEASURES

The model used to measure discretionary accruals ($DISC\_ACR_{it}$) equals:

$$SC\_TA_{it} = \beta_1 CONSTANT_{it} + \beta_2 SC\_CHG\_SALE_{it} + \beta_3 SC\_PPE_{it} + \varepsilon_{it}$$

where SC_TA_{it} is total accruals for firm i, calculated as income before extraordinary items (IB_{it}) minus operating cash flows ($OANCF_{it}$) and cash flows for extraordinary items and discontinued operations ($XIDOC_{it}$) in year t; $CONSTANT_{it}$ equals 1 divided by assets at the beginning of the year (AT_{it-1}); $SC\_CHG\_SALE_{it}$ equals change in sales ($SALE_{it}$) minus prior period sales ($SALE_{it-1}$); SC_PPE_{it} equals gross property, plant & equipment ($PPEGT_{it}$). SC_TA, SC_CHG_SALE, and SC_PPE are scaled by AT_{it-1}.

Discretionary accruals ($DISC\_ACR_{it}$) equal the difference between the company's actual total accruals (SC_TA_{it}) and expected accruals based on the above model. Expected accruals are calculated with the adjustment for change in receivables. Absolute values of discretionary accruals ($ABS\_DISC\_ACR_{it}$) are calculated using $DISC\_ACR_{it}$.

The model used to measure accrual quality ($R\_CHG\_WC_{it}$) equals:

$$CHG\_WC_{it} = \beta_0 + \beta_1 LAG\_CFO\_DD_{it} + \beta_2 CFO\_DD_{it} + \beta_3 LEAD\_CFO\_DD_{it} + \varepsilon_{it}$$

where CFO_DD_{it} is operating cash flows ($OANCF_{it}$) divided by average total assets [$(AT_{it} + AT_{it-1})/2$]; $LAG\_CFO\_DD_{it}$ is lagged operating cash flows ($OANCF_{it-1}$) divided by average total assets; $LEAD\_CFO\_DD_{it}$ equals one period ahead operating cash flows ($OANCF_{it+1}$) divided by average total assets; CHG_WC_{it} equals negative one times the sum of change in accounts receivable ($RECCH_{it}$), change in inventory ($INVCH_{it}$), change in accounts payable ($APALCH_{it}$), change in income taxes payable ($TXACH_{it}$) and change in net other assets ($AOLOCH_{it}$) scaled by average total assets. RECCH, INVCH, APALCH, TXACH, and AOLOCH are set to zero if missing. Accrual Quality ($R\_CHG\_WC_{it}$) equals the difference between the company's actual change in working capital (CHG_WC_{it}) and expected values based on the above model.

The model used to measure abnormal cash flow (CFO_REM_{it}) equals:

$$CFO\_REM_{it} = \beta_1 CONSTANT_{it} + \beta_2 SC\_SALES_{it} + \beta_3 SC\_CHG\_SALE_{it} + \varepsilon_{it}$$

where CFO_REM_{it} equals operating cash flows ($OANCF_{it}$) minus cash flows for extraordinary items and discontinued operations ($XIDOC_{it}$); $CONSTANT_{it}$ equals 1 divided by assets at the beginning of the year (AT_{it-1}); SC_SALES_{it} equal current period sales ($SALE_{it}$); $SC\_CHG\_SALE_{it}$ equals sales ($SALE_{it}$) minus prior period sales ($SALE_{it-1}$). CFO_REM, SC_SALES, and SC_CHG_SALE are scaled by AT_{it-1}. Abnormal cash flow (R_CFO_{it}) equals the difference between the company's actual operating cash flow (CFO_REM_{it}) and expected values based on the above model.

The model used to measure abnormal production (R_PROD_{it}) equals:

$$PROD_{it} = \beta_1 CONSTANT_{it} + \beta_2 SC\_SALES_{it} + \beta_3 SC\_CHG\_SALE_{it} + \beta_4 SC\_LAG\_CHG\_SALE_{it} + \varepsilon_{it}$$

where $PROD_{it}$ equals cost of goods sold ($COGS_{it}$) plus change in inventory from prior period ($INVT_{it} - INVT_{it-1}$); $SC\_LAG\_CHG\_SALE_{it}$ equals prior period sales ($SALE_{it-1}$) minus two period lagged sales ($SALE_{it-2}$). PROD and SC_LAG_CHG_SALE are scaled by AT_{it-1}. Abnormal production (R_PROD_{it}) equals the difference between the company's actual production ($PROD_{it}$) and expected values based on the above model.

The model used to measure abnormal discretionary expense (R_DX_{it}) equals:

$$DISCEXP_{it} = \beta_1 CONSTANT_{it} + \beta_2 SC\_LAG\_SALES_{it} + \varepsilon_{it}$$

where $DISCEXP_{it}$ equals the sum of advertising (XAD_{it}), R&D (XRD_{it}) and SG&A ($XSGA_{it}$) expenses; $SC\_LAG\_SALES_{it}$ equals prior period sales ($SALE_{it-1}$). XAD, XRD and XSGA are set to zero if missing. DISCEXP and SC_SALES are scaled by AT_{it-1}. Abnormal discretionary expenses (R_DX_{it}) equal the difference between the company's actual discretionary expenses ($DISCEXP_{it}$) and expected values based on the above model.

CONTROL VARIABLES

ROA = net income (NI_{it}) scaled by average total assets

SIZE_AT = natural log of total assets (AT_{it})

BTM = total stockholders' equity (SEQ_{it}) divided by market value of equity ($PRCC\_F_{it}$*$CSHO_{it}$)

GROWTH = difference between current and prior period sales (SALE) scaled by prior period sales

SC_LEV = total liabilities (LT_{it}) scaled by total assets (AT_{it})

GOVERNANCE MEASURES

BIG_N = 1 if the client's auditor (AU) is either Arthur Andersen, Arthur Young, Coopers & Lybrand, Ernst & Young, Deloitte & Touch, KPMG, PwC, or Touche Ross

The following auditor specialization measures were calculated based on the entire Compustat dataset and then matched with my sample of firms.

MKT_SHARE = sum of each auditor's client sales (SALE) per fiscal year and 2-digit SIC code divided by the sum of total sales (SALE) per fiscal year and 2-digit SIC

MKT_DIFF = difference in MKT_SHARE between the largest and second largest audit suppliers for each fiscal year and 2-digit SIC code

DOMINANCE = 1 if the client's auditor is the largest audit supplier for the fiscal year and 2-digit SIC code based on client sales (SALE) and the difference in market share (MKT_DIFF) is at least 10% between the largest and second largest audit supplier

NCLIENTS = sum of the number of audit clients per fiscal year and 2-digit SIC code for each audit firm

CL_SHARE = sum of the number of audit clients per fiscal year and 2-digit SIC code for each audit firm (NCLIENTS) divided by the sum of the number of total audit clients per fiscal year and 2-digit SIC code

MOST_CLTS = 1 if the client's audit firm is the clear leader based on its number of audit clients per fiscal year and 2-digit SIC code

INST = total number of shares held by institutions (SHARES) divided by total shares outstanding (CSHO); Source: Thompson Financial and Compustat

BOD_SIZE = total number of members on the company's board of directors; Source: Corporate Library (DIRECTORSTOTAL), Risk Metrics (DIRECTORS_TOTAL), and hand-collected data

CEO_DUAL = 1 if the CEO also serves as the Chair of the board of directors; Source: Corporate Library (CEOISCHAIRMAN), Risk Metrics, and hand-collected data

JOB DEMAND MEASURES

N_SEG_BUS = total number of business segments; Source: Compustat

N_SEG_GEO = total number of geographic segments; Source: Compustat

MTB = market value of equity (PRCC_F*CSHO) divided by total stockholders' equity (SEQ)

LIT = 1 if the company's SICH equals 2833-2836, 3570-3577, 3600-3674, 5200-5961, or 7370

SOX = 1 if the fiscal year (FYEAR) is greater than or equal to 2002

VITA

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